TT Electronics
Make Possible

Annual Report 2013

About TT Electronics

TT Electronics is an innovative global electronics company supplying the world's leading manufacturers in the transportation, industrial, aerospace, defence and medical markets. We make things happen by developing new technologies in Sensing and Control, Components and Integrated Manufacturing Services. We are able to achieve this based on a deep understanding of our customers' needs developed through strategic relationships with OEMs around the world. We have a truly global reach, with technical and manufacturing facilities at key locations close to our major markets.

See pages 18-19 for more detail

Driving our strategic objectives

In our previous Annual Report, we set out our strategy for 2013: to become a more focused electronics business and drive profitable growth through investment in product innovation, deeper penetration of our target markets and operational excellence. This strategy included commitments to: combine our Sensors and elements of our Components divisions into a new Sensing and Control division; continue investment in operational excellence by increasing our production footprint in best cost regions; and expand our research and development facility in Bangalore, India, to support established engineering centres enabling us to pursue more opportunities.

We made significant progress in the execution of this strategic plan during the year, successfully achieving our objectives. We highlight our progress in this report, together with the opportunities for our reshaped business, as we enter the next phase of our development.

Key highlights 2013:

Successful establishment of the new Sensing and Control division to:

- bring together our current strengths in sensor, control products and solutions
- leverage these combined strengths to better address market demand for complex electronic systems
- streamline and focus our global sales resource in targeted markets
- establish a global product management and engineering capability to develop our long-term product portfolio and technologies

A proposed investment of over £30 million to scale our Sensing and Control operations in best cost regions by:

- commencing the relocation of production from Fullerton, USA to Mexicali, Mexico
- expanding our Romanian facility, with 22 product lines already transferred from Germany and Austria at 31 December 2013
- expanding our Bangalore engineering centre

Revenue growth and strong cash generation, including:

- sales growth of 4.9 per cent to £532.2 million on an underlying basis, excluding the effects of foreign exchange and the acquisition of ACW Technologies*
- operating profit increase of £1.5 million to £30.2 million*
- net cash of £26.9 million at 31 December 2013
- profit before tax reduced by 16.8 per cent from £22.0 million in 2012 to £18.3 million in 2013

Continued investment in all areas of the business to accelerate growth and deliver our margin improvement targets.

* Underlying revenue is stated excluding the effect of foreign exchange and the acquisition of ACW Technologies. Operating profit, unless otherwise indicated, is stated before exceptional items.

For more information on our business please visit

www.ttelectronics.com

In this report

How we manage our business

Overview of key figures, products and services by division.

See pages 8-9 for more detail

Focus on value creation

Creating shareholder value by applying innovation and know-how to products and services for our customers.

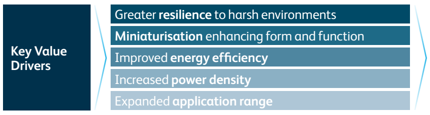
See pages 20-21 for more detail

Benefiting from favourable market dynamics

Well-positioned to benefit from the positive long-term market demands.

See pages 12-15 for more detail

Technology portfolio



See pages 10-11 for more detail

Geraint Anderson, Group Chief Executive

Strategy and performance

Geraint Anderson, Group Chief Executive, reports on our business progress in 2013 against our strategic financial and non-financial KPIs.

- Our vision
- Understanding market trends
- Focusing on strategic areas
- Measuring and rewarding performance
- Embedding our strategy across the organisation

See pages 18-19 for more detail on our strategy

Financial review

Shatish Dasani, Group Finance Director, provides an analysis of our financial results during the year, including our year end financial position and our objectives for the future.

Further information is provided about Group performance and our key operating divisions:

- Sensing and Control
- Components
- Integrated Manufacturing Services (IMS)

See pages 40-41 for more detail on our strategy

Shatish Dasani, Group Finance Director

Understanding and managing our risks

Insight into our principal risks, how they have changed during the year and how we manage them.

See pages 24-27 for more detail on our risk management

Strategic Report

Directors' Report – Governance

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Chairman's statement

Innovation and technology leadership lie at the heart of TT Electronics

Sean Watson,
Chairman

Highlights

- Investing for growth
- Increase in headline EPS
- 8% dividend increase
- TSR outperformance

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.

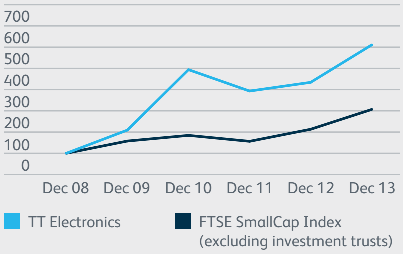
Strong cash generation and improved working capital flows in the last quarter resulted in a net cash position of £26.9 million at 31 December 2013. We will leverage our strong balance sheet to continue investing in the business, both organically and through targeted acquisitions.

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.

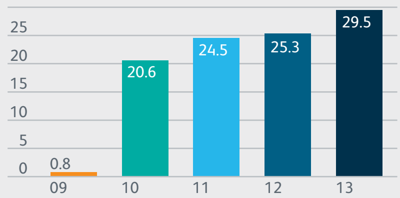
In June 2013, we created a focused Sensing and Control division to capture increasing market opportunities for high performance, integrated control electronics in higher growth markets.

Total Shareholder Return (TSR) %

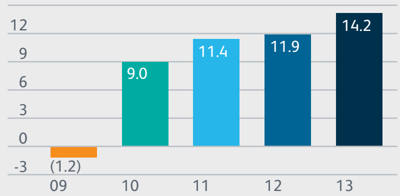


This graph shows the value, by 31 December 2013, of £100 invested in TT Electronics plc on 31 December 2008 compared with the value of £100 invested in the FTSE SmallCap Index (excluding investment trusts). The other points plotted are the values at intervening financial year ends.

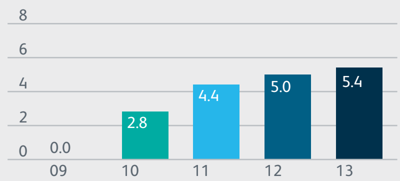
Profit before tax* £m



Headline earnings per share* pence



Dividend per share pence



* Before exceptional items

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.

+ See Responding to our marketplace on pages 14-15

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 on pages 51 to 55. 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

Our approach

Targeted growth plans and strategic actions underpinned by favourable industry trends

Transportation, industrial, aerospace, defence and medical products are becoming more sophisticated in response to demand for greater functionality, safety and performance. The increased use of complex electronic systems leads to the greater deployment of sensors and a requirement for intelligence and control. As our markets require more innovative approaches, at TT Electronics we are well-placed to respond, building on our core strengths to capture additional opportunities.

We provide valued solutions for critical sensing and control applications. Our customers trust us to:

– Innovate to deliver the right solution

– Deliver rigorous programme requirements

– Supply products that work every time

– Provide global support from our highly knowledgeable people

We continue to invest in new products, services and operational excellence in our IMS and Components divisions, where we have strong positions in focused areas.

The value of our offering

See pages 6-7 for more detail

Well-positioned to serve our customers

See page 8 for more detail

Where we operate

See page 9 for more detail

Moving with our markets

To reflect the changing complexities of our markets, we have structured TT Electronics to align with the demands of our target markets. This enables us to deliver optimal solutions, efficiently and effectively. Our Sensing and Control business is focused on delivering the right solutions to our customers by positioning the business to achieve the strategic aims set out below.

+ See pages 12-13 for more detail

Long-term growth

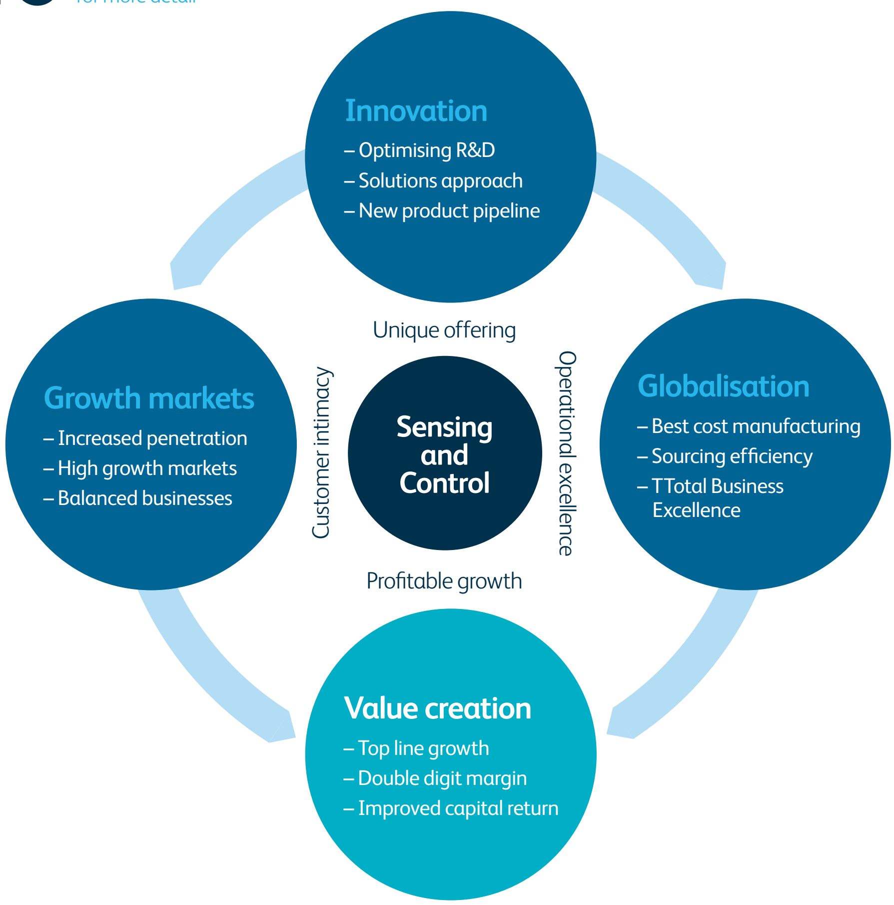
Our plan for growth is based on actions that have taken place over the last four years. We have worked hard to establish a solid base of leading technologies, supported by talented people, strong core processes and a global footprint. With our pipeline of new products, we are well positioned to support increasing market demand in 2014 and beyond.

+ See pages 14-17 for more detail

Creating value

By implementing our strategy, we are positioning the Group to serve our customers better, creating value for them, their customers and all our stakeholders.

+ See pages 18-21 for more detail



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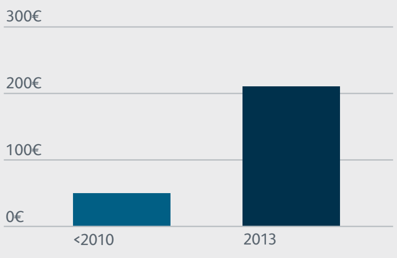
The value of our Sensing and Control offering

Premium car brands' production continues to accelerate

With over 100 sensing and control points in a premium vehicle, our portfolio of solutions means we are well placed to continue increasing our content. The premium sector of the global vehicle market is forecast to increase 5.5 per cent per year from 2013-2020[1] giving a long-term, favourable environment for growth.

Average Sensing and Control content per vehicle*



* German luxury brand

[1] PWC Autofacts

Engine

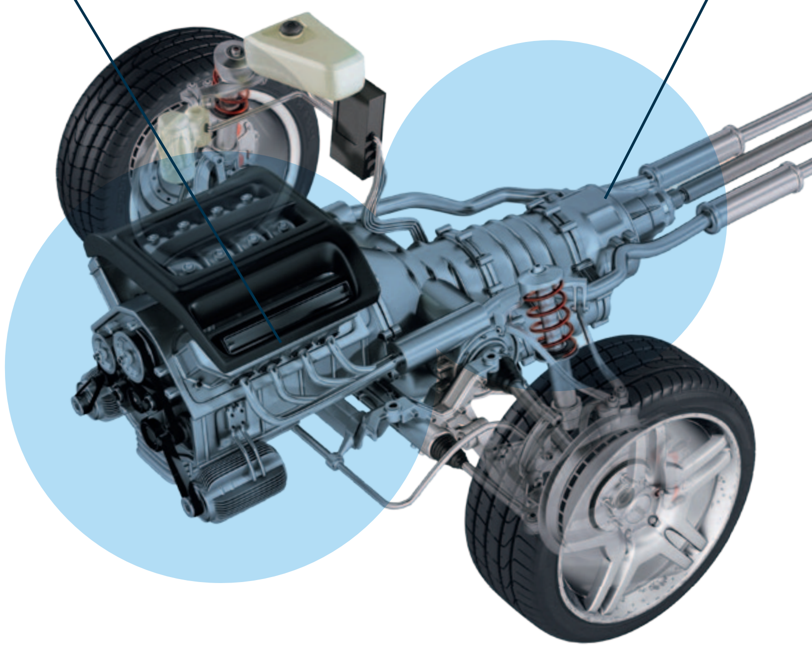
8-10 sensing and control points:

- Electronic pump control
- Cam and crank speed and position
- Temperature
- Pressure

Steering and Throttle

4-6 sensing and control points:

- Electronic power steering control
- Position and torque sensors
- Intelligent throttle control



Transmission

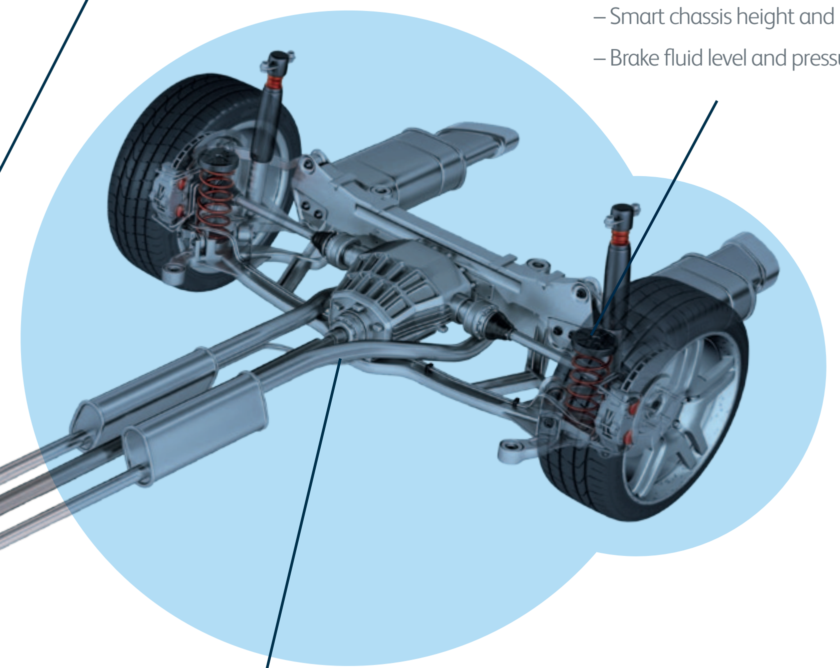
3-5 sensing and control points:

– Smart gear detection and control
– Bearing wear
– Fluid pressure, level, and temperature
– Transmission control

Braking and Suspension

6-8 sensing and control points:

– ABS speed
– Smart chassis height and position
– Brake fluid level and pressure

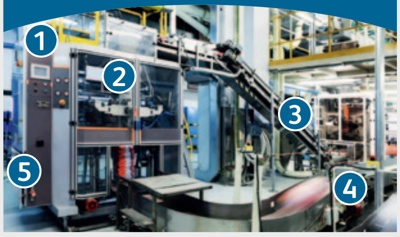


Exhaust

8-12 sensing and control points:

– Gas temperature and pressure
– NOx sensing
– Urea/ad blue level and condition

Industrial automation



A wide industrial portfolio

As demands for efficiency and safety increase, the need for increasing levels of automation and more sophisticated control is accelerating the requirement for sensing and control solutions. Our plans for growth include building on our strong base of capabilities and technologies to expand further into high growth industrial applications. With the underlying market for industrial automation forecast to increase by 7.7 per cent on average from 2012 to 2015[1], this represents a significant opportunity for growth.

1. Compressor

10-50 sensing and control points

2. CNC machine

25-40 sensing and control points

3. Conveyor

10-50 sensing and control points

4. Motors/speed drives

5-10 sensing and control points

5. Power supply

5-10 sensing and control points

[1] IMS Global Industrial Automation Market, May 2012

Well-positioned to serve our customers

What we do

TT Electronics enables global customers to develop cutting-edge products by leading innovation in the transportation, industrial, aerospace, defence and medical markets.

How we are organised

Sensing and Control – Providing sensing and control solutions for critical applications which require high levels of expertise, precision and reliability for leading customers, globally.

Integrated Manufacturing Services – Providing manufacturing skills and technologies at strategically located sites combining a global presence with local teams in key regions to support our customers' global ambitions.

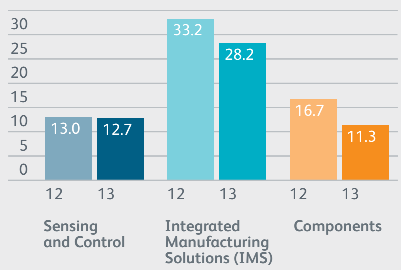
Components – Working in partnership, from concept to manufacture, in the transportation, industrial, aerospace, defence and medical markets.

Division	Description	Market focus	Revenue	Operating profit	Product	Typical application
Sensing and Control + See pages 34-35 for more detail	Manufactures sensors and controls for demanding applications	• Transportation • Industrial • Medical • Aerospace	£285.2m +6.1 %	£17.3m +1.2 %		• Powertrain • Process controls • Flight controls
Integrated Manufacturing Services + See pages 36-37 for more detail	Provides specialist electronic manufacturing services	• Defence • Aerospace • Medical • Industrial	£146.6m +15.9 %	£8.8m +11.1 %		• Innovative supply chain solutions across the complete product lifecycle
Components + See pages 38-39 for more detail	Engineers solutions for resistors, microcircuits and connectors	• Transportation • Industrial • Defence • Aerospace • Medical	£100.4m -8.7 %	£4.1m -28.8 %		• Medical instruments • Analytical equipment • Defence vehicles and communications

Revenue by division %

Operating profit by division %

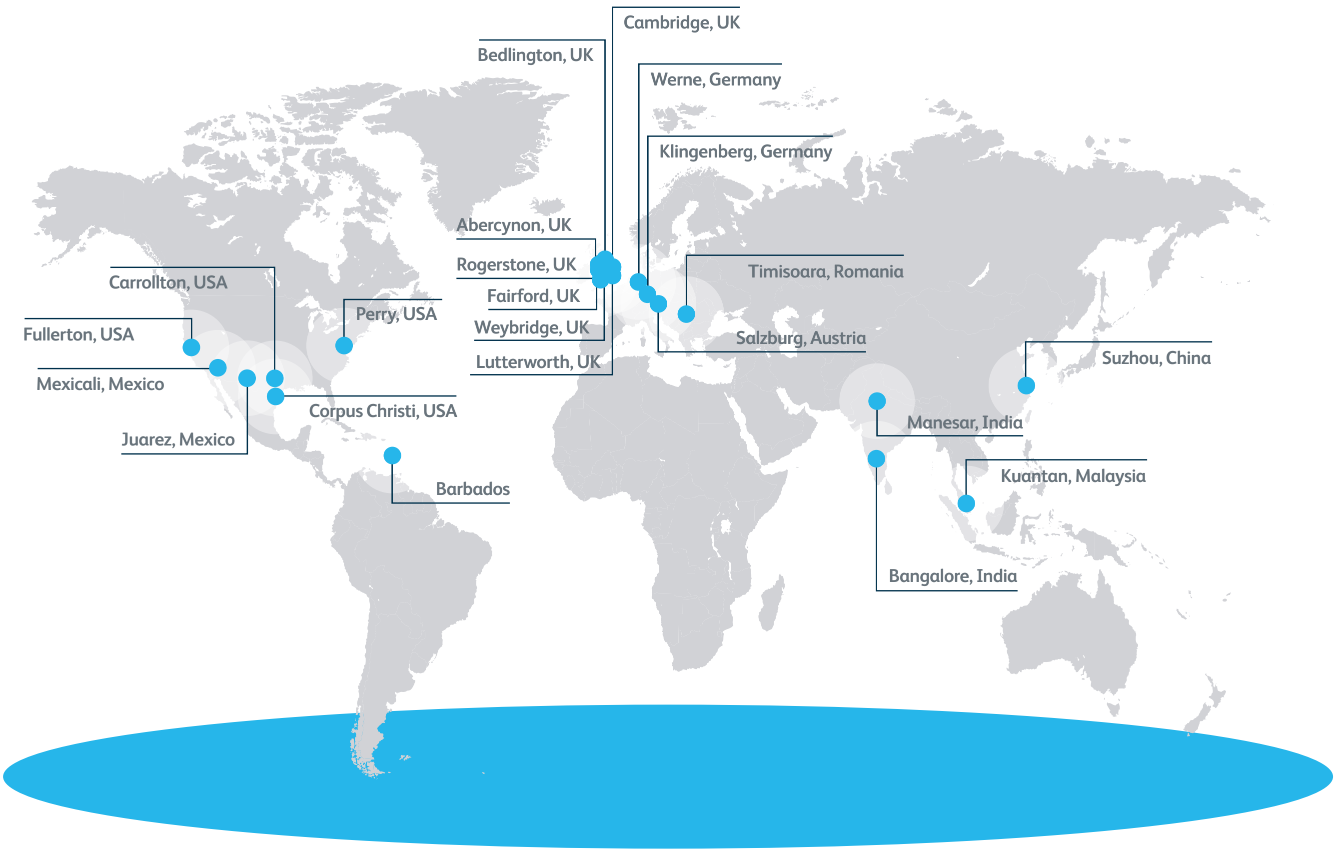
Return on capital employed %



Note: Change in revenue percentage shown at constant FX rates and before ACW acquisition. Operating profit is stated before exceptional items.

Where we operate

We operate globally, with a sales, engineering and manufacturing presence in all major regions, and we are well-positioned to serve our customers in our focus markets.



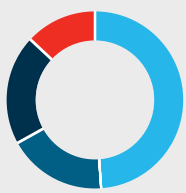
Our customers

We play to our strengths in five key markets: transportation, industrial, aerospace, defence and medical. Our customers are renowned for their global brands and innovative approaches in each of these areas. We work with them to understand and support their future technologies and requirements.

Revenue by market (2013)

Passenger car	40 %
Industrial	26 %
Defence and Aerospace	13 %
Transportation, non-passenger car	9 %
Medical	8 %
Other	4 %

Revenue by region (2013)



Rest of Europe	49 %
North America	18 %
United Kingdom	20 %
Asia	13 %

Our business model

Customers are at the centre of our business model. By understanding their long-term needs and requirements, we can develop the right solutions and support them anywhere in the world. We believe this business model creates a long-term competitive advantage, delivering value for all stakeholders. We apply expert knowledge and innovation to our products and services, and invest in global best cost manufacturing solutions for future growth.

Our business in context

Our customers seek to differentiate themselves in competitive markets through the rapid development and manufacture of complex high-performing products which rely on critical electronic sub-systems and components. They trust TT Electronics because we understand their challenges and have a reputation for providing innovative and reliable technical solutions combined with the ability to support them globally.

+ For more information about market trends please see pages 12-13

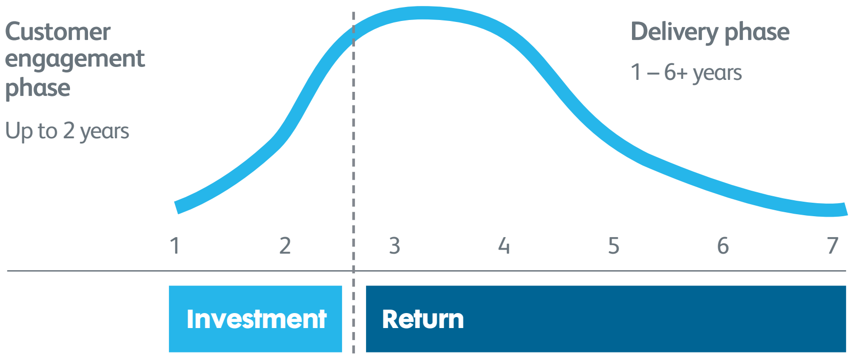
Our technology portfolio

Key Value Drivers

- Greater **resilience** to harsh environments
- **Miniaturisation** enhancing form and function
- Improved **energy efficiency**
- Increased **power density**
- Expanded **application range**

Investment and return model

The Sensing and Control and Components divisions create value by applying their electronic, mechanical engineering, materials and process expertise to develop complex electronic systems and components, in turn enabling their customers to deliver higher performing products. The IMS division leverages its global footprint, leading manufacturing capabilities and supply chain expertise to deliver world-class end-to-end manufacturing solutions.



Our value cycle

1. Understanding market needs

We analyse global drivers and trends to determine attractive areas for growth. In all major markets, we have teams working with existing and new customers to understand future requirements.

2. Developing customer relationships

By building close relationships, we identify where we can apply our expertise to support our customers and help them realise their objectives. We seek to identify specific requirements that span multiple customers in our target markets, thereby increasing the scale of the opportunity.

3. Providing value added solutions

Our engineering teams engage early in the design process, using their experience to quickly understand the customer's specific requirements, often working alongside their development teams. Using the Group's core technologies and product platforms, our teams identify the best solution to exceed the customer's requirements in terms of performance, reliability, size and cost.

4. Investing in best cost, global operations

Our geographical footprint means we are well placed to provide manufacturing and after sales service and support in all major regions. We have a broad manufacturing presence, with our traditional locations in North America, Europe and China being complemented by the ongoing development of additional better cost centres of excellence in Mexico, Romania and India. Our Group-wide focus on productivity improvement and manufacturing excellence ensures that our operations remain competitive.

5. Generating sustainable returns

By applying strict investment criteria to our capital expenditure projects we remain focused on generating long-term returns on investment. Cash generated is used to strengthen our balance sheet, make returns to shareholders and re-invest in the business for growth.

Our marketplace

Increasing demand for our products is driven by three principal trends:

Performance

Demand for increasingly sophisticated end-user products is generating a need for more complex, smaller electronic solutions to increase:

- Functionality
- Efficiency
- Power
- Reliability and Accuracy

Regulation

Changing regulations, particularly in the areas of safety and the environment, are increasing the levels of investment in:

- Efficient energy generation, distribution and consumption
- Systems to improve performance and reduce emissions in Transportation, Aerospace and Defence markets

Growth and prosperity

Rising GDP, living standards and disposable incomes, particularly in emerging economies, are increasing demand in our core markets:

- Industrial
- Medical
- Transportation
- Aerospace
- Defence

How these trends influence our markets

Light vehicle opportunity

Light vehicle unit growth

+5% CAGR ('13 – '16)

Powertrain sensors

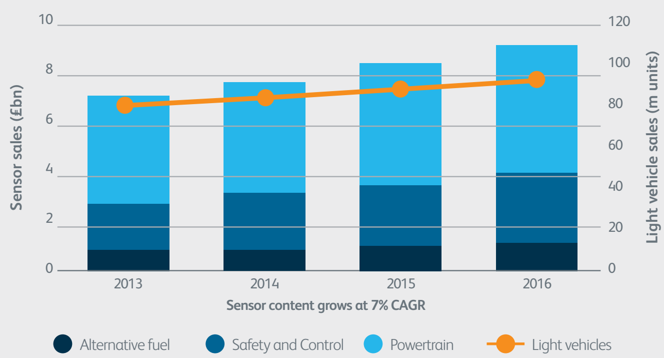
+6% CAGR ('13 – '16)

Safety & control sensors

+14% CAGR ('13 – '16)

Alternative fuel system sensors

+12% CAGR ('13 – '16)



2012 Markets and Markets, Global Sensor Market for Automotive Applications, IHS Forecast Light Vehicle Sales

Focused market sector	Market size and compound annual growth rates[1]	Growth drivers
Transportation: Passenger vehicles 	£4.5 billion 8.0%	• Emerging economies • Improved safety and performance • Emissions reduction
Industrial 	£4.1 billion 6.8%	• More complex processes • Demand for automation • Increased levels of control • Safety regulations
Defence and aerospace 	£0.5 billion 6.6%	• Growth in air travel • Increased investment in infrastructure • Improved operating efficiencies • Communications growth
Medical 	£0.3 billion 7.0%	• High disposable incomes increasing access to medical care in emerging economies • Ageing populations in developed countries • Increasing demand for more sophisticated instruments
Transportation: non-passenger car 	£0.2 billion 7.0%	• Emissions standards • Performance, safety and comfort • Fuel economy • Improved productivity

[1] Total addressable market for position, speed, pressure and temperature.
2013 market size: BCC, VDC, Markets and Markets. 2013-2016 CAGR.

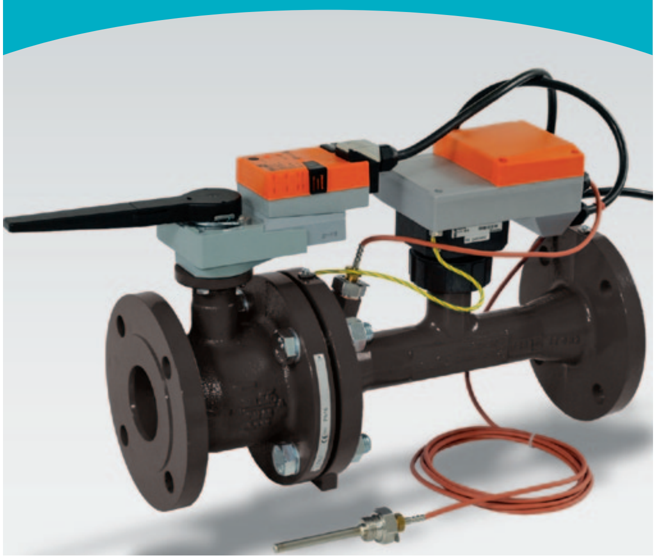
Responding to our marketplace

TT Electronics Resistors business unit has expanded its market leading portfolio of fusing resistor products recognised by the safety agency UL. These parts combine in a single component the safety function of a fuse with the protective function of a resistor. In 2013, fibre core technology was added to this UL-recognised range including the SPP series, which delivers the benefit of more rapid fusing under fault conditions, thus guarding against overheating and fire. Belimo, a global market leader in the development, production and marketing of actuator solutions for controlling heating, ventilation and air conditioning systems, have designed the SPP1 into their range of actuators. This is an application in which prevention and control of fire and smoke is critically important, and TT Electronics is supporting Belimo in meeting stringent safety standards.

Transparency Market Research estimates the global HVAC equipment market is expected to exceed $139 billion by 2018, growing at a CAGR of 8.9 per cent from 2012 to 2018.

Visit www.ttelectronics.com for more detail

Making the world a safer place



Going where the growth is

In 2013, the TT Electronics IMS division secured a significant new business award with the Shanghai Avionics Corporation (SAVIC). SAVIC is a major provider of avionics products to the Chinese aviation industry and is owned by AVIC. IMS was chosen for its reputation as a global leader in manufacturing electronics for the aerospace market, a best in class quality system underpinned by Nadcap accreditation and a history of supporting the C919 program including previously awarded business by AVIAGE, a joint venture between General Electric and AVIC.

According to the predictions of The Aviation Industry Corporation of China (AVIC), in the next 20 years, China will have an increase of nearly 5,000 commercial airliners.

Visit www.ttelectronics.com for more detail

TT Electronics Sensing and Control division is combining its expertise in sensing technology and e-mobility to bring efficiency and comfort to a new range of pedal gear assemblies developed for e-bikes. The new contactless rotational speed sensor for INA Schaeffler provides 36 speed pulses per wheel revolution, significantly greater than the market standard of five to eight pulses. Higher accuracy improves efficiency and rider comfort, enabling the customer to offer a truly unique selling proposition.

Navigant forecasts that the number of e-bicycles in Western Europe will grow 9.1 per cent per year from 2013 to 2020, with sales increasing from 1 million to 1.9 million over the period.

Visit www.ttelectronics.com for more detail

Expanding our focus markets

Next generation healthcare

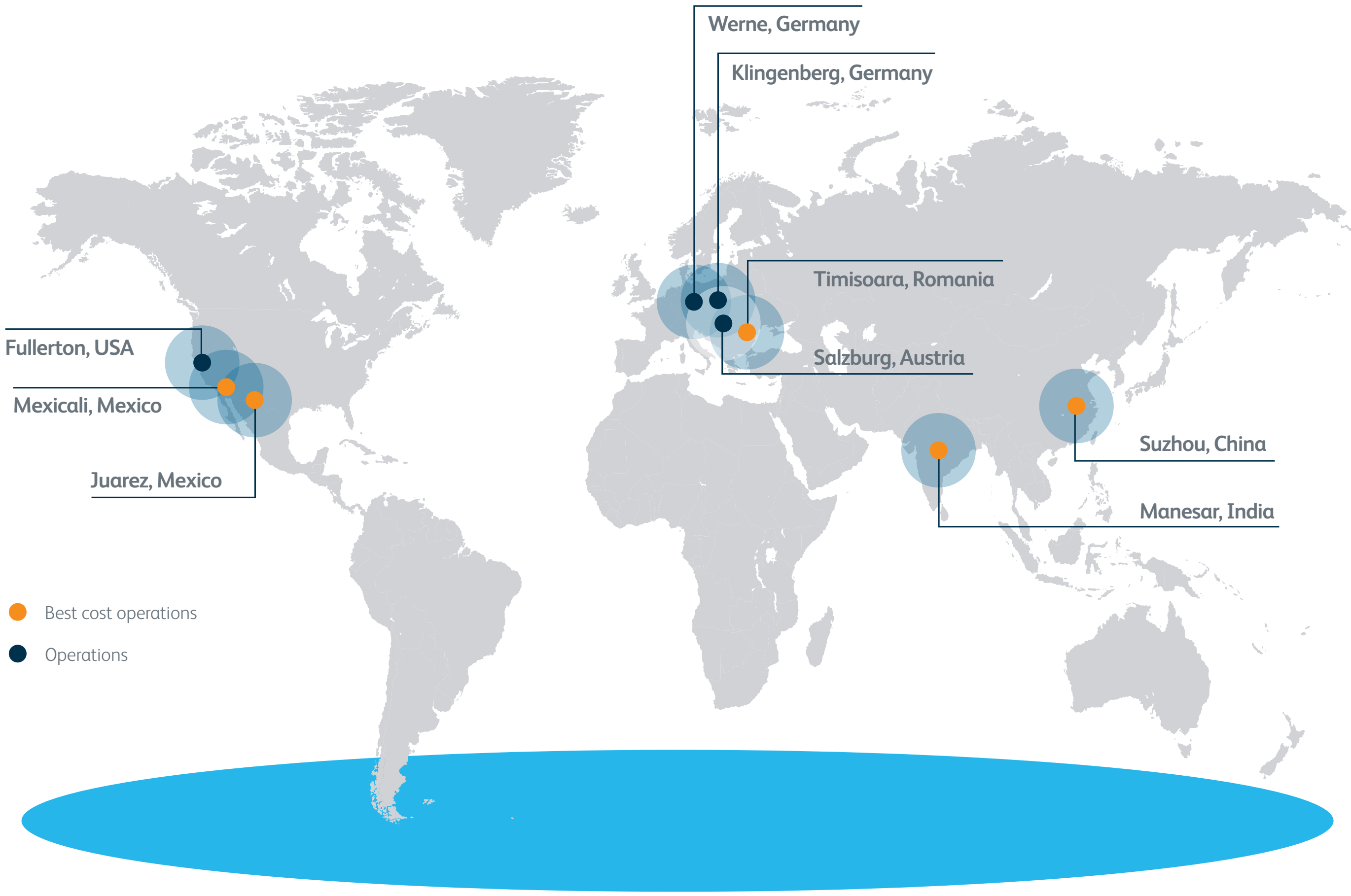
GE Healthcare is a global leader in medical imaging, information technologies and patient monitoring systems. The Optoelectronics business unit, within TT Electronics Sensing and Control division, has been supporting GEHC's engineering teams by supplying products for their sophisticated patient monitoring equipment for adequacy of anaesthesia, respiratory data and hemodynamics. TT Electronics remains committed to designing and manufacturing engineered custom products to support the medical markets.

In 2016, the global healthcare equipment market is forecast to have a value of $215.2 billion, an increase of 25.5 per cent since 2011 as estimated by Marketline.

Visit www.ttelectronics.com for more detail

Our integrated global manufacturing

Sensing and Control operations



Our Operational Improvement Plan

As announced in June 2013, over the next 24 months we are investing approximately £30 million in order to restructure our operational footprint, move production to best cost regions, and improve our overall performance.

Estimated benefits of the plan are around £8 million per annum, to be realised from the second half of 2015 onwards, giving a cash flow payback of less than four years and contributing to the delivery of our operating margin targets.

Building on our strengths to create differentiation

We have significant programmes underway to improve operational efficiencies and productivity.

We are continuing to roll out our common enterprise resource management platform, redesigning our customer service organisation, and expanding our TTotal Business Excellence (TTBE) programme throughout the Sensing and Control division (see page 34 for more details). Furthermore, we have launched standard business processes globally for financial controls, customer relationship management (CRM) and new product introduction.

	Key initiatives in 2013	Plans for 2014
Sensing and Control	• Developed a global procurement strategy • Launched the Operational Improvement Plan • Embedded TTotal Business Excellence programme	• Increase proportion of spend in best cost regions • Deliver best cost operational footprint by undertaking the move of production from Werne, Germany and Fullerton, California • Achieve a Six Sigma performance across the division
Components	• Increased performance of Mexicali facility • Implemented actions to improve profitability in the Power and Hybrid, Magnetics and Connectors businesses • Closed loss-making USA connectors business	• Achieve targeted performance from move to Mexicali, Mexico, from Boone, North Carolina • End production in Smithfield, South Carolina, and Fullerton, California • Deliver operational improvements to support progress to double digit profitability
IMS	• Launched facility in Romania • Integrated ACW acquisition • Transferred UK and US harness/box build businesses from Components into IMS • Closed Malaysia facility	• Expand Romanian facility • Integrate Tonypandy and Rogerstone sites • Build on growth achieved in 2013

Our strategy

Creating sustainable value for our stakeholders by delivering innovative solutions

Our vision

Our vision is to be the preferred and most trusted provider of performance critical technology solutions to world-leading manufacturers, embedding innovation in everything we do.

Understanding market trends

Understanding the macro trends affecting our customers' end markets is pivotal to the shaping of our strategy. Demand for improved product performance and functionality, linked to regulatory changes and high growth in emerging markets, is creating increased requirements for our products. We cover these trends in more detail on pages 12-13.

Focusing on strategic areas

We have established four areas of strategic focus:

- Growth markets
- Globalisation
- Innovation
- Culture

These areas influence our long-term strategic planning and are explained in detail on the opposite page.

Measuring and rewarding performance

Our KPIs, a mixture of financial and non-financial metrics, are used to measure our overall performance against our plans. Importantly, four of these KPIs are used to determine short-term and long-term remuneration rewards, reinforcing our policy to relate reward to clearly defined performance criteria. See page 19.

Embedding our strategy across the organisation

Our strategy is embedded in the organisation through an annual planning cycle. Over the course of this cycle, we assess progress against previous plans, adjust strategies where required and determine our plans for the next three year period. These strategic plans then determine the key activities and targets for the following calendar year, allowing us to track progress against the implementation of our strategic priorities. The KPIs we have selected are based on the activities and targets we set, ensuring that our strategy is embedded across the organisation.

Geraint Anderson, Group Chief Executive

Market trends shaping our strategic thinking

Performance

Regulation

Growth and prosperity

See pages 12-13 for more detail

Strategic focus areas

Growth markets

We are focused on high growth markets and the leading global players in these markets.

Globalisation

We aim to accelerate our global presence by investing in manufacturing in best cost regions and providing local sales and technical support worldwide.

Innovation

We are committed to understanding and applying innovation in order to differentiate our products and those of our customers.

Culture

We have a clear set of values that provide a framework within which we expect all of our employees to operate.

We put the customer at the heart of everything we do, supported by teamwork, innovation and a passion for excellence.

See pages 20-21 for more detail

Our execution

1. Targeting high growth markets
2. Increasing customer intimacy
3. Expanding internationally
4. Seeking acquisitions for technological advancement
5. Differentiation through innovation
6. Investment in people
7. TTotal Business Excellence

See pages 22-23 for more detail

Measuring our overall performance

Financial KPIs

- Organic revenue growth
- Operating profit margin (R)
- EPS growth (R)
- Relative TSR (R)
- Operating cash conversion (R)

Non-financial KPIs

- Safety performance
- Employee engagement

(R) Linkage to remuneration

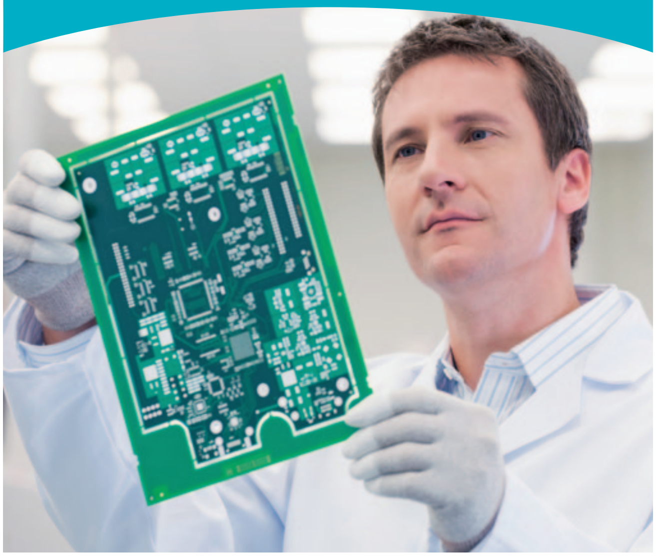
See pages 22-23 for more detail

Strategic Report
Governance
Financial Statements
Additional Information

Providing a unique product portfolio addressing customer needs

Helping our customers succeed by designing the right products and providing support. Focused where the growth is: markets, regions, customers. Investing in our people for the long term.

Delivering growth



HVDC (high-voltage direct current) is a highly efficient alternative for transmitting large amounts of electricity over long distances and for special purpose applications. As a key enabler in the future energy system based on renewables, HVDC is shaping the grid of the future. As the global market for renewable energy sources continues to increase, ABB Power Systems' HVDC unit has selected TT Electronics Sensing and Control division as its partner for the supply of reliable long-life components used in cutting-edge power conversion and control applications. TT Electronics is creating custom infra-red diodes-emitters and receivers and custom fibre optic transmitters which ABB is incorporating into fully enclosed fibre optic automated power control systems.

Growth markets See page 19 for more detail

Visit www.ttelectronics.com for more detail

TT Electronics Sensing and Control division has expanded and strengthened its team in Asia to drive growth in the region and provide a focus for the Korean market. As an important strategic customer, Hyundai Motor Corporation (HMC) has now signed a mutual cooperation agreement with TT Electronics for future collaboration on sensors and pedal products. The agreement is a result of high-level discussions between the companies. TT Electronics will be supporting HMC on a global basis and has nominated a dedicated project team to support the relationship and ensure programmes run effectively.

Globalisation See page 19 for more detail

Visit www.ttelectronics.com for more detail

Building global partnerships

Working together

Datacard Group empowers financial institutions, government agencies and other enterprises in more than 150 countries to securely issue and personalise financial cards, passports, national IDs, employee badges, mobile payment applications and other credentials. TT Electronics Sensing and Control division provides both the IR and custom assembly to detect the presence of an ID badge as it is cycled from a magazine cartridge to the printing station. The Optoelectronics business unit provides a unique sensor able to detect the presence of an object that is not always presented in a linear fashion.

Innovation See page 19 for more detail

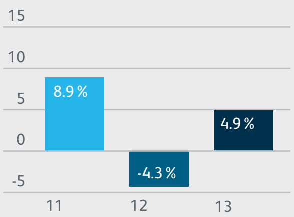
Visit www.ttelectronics.com for more detail

Our Key Performance Indicators

We use a number of financial and non-financial key performance indicators (KPIs) to measure our performance over time. These KPIs were first established in 2009.

Financial

1
Organic revenue growth



Target :

Each year.

Mid to high single digits

Definition

Organic revenue growth is the percentage change in revenue from continuing Group operations in the current year from the prior year. The effects of currency movements, divestments and acquisitions made during the current or prior financial year have been removed.

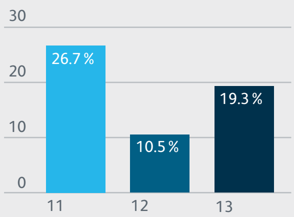
This KPI measures our strategy in growth markets.

Performance

Organic revenue increased in 2013 by 4.9 per cent reflecting new business won through existing and new customers.

+ See page 33 for more detail

2 Ⓡ
Earnings per share (EPS) growth



Target :

Year on year growth of

3%

in excess of RPI

Definition

EPS is calculated as profit before exceptional items from continuing operations attributable to shareholders, divided by the weighted average number of shares in issue during the year.

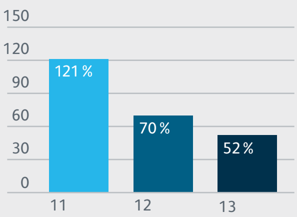
We have chosen EPS growth as a KPI as it is a standard metric to determine corporate profitability for shareholders.

In addition, it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan – see further details on page 66.

Performance

EPS from continuing operations increased from 11.9 pence in 2012 to 14.2 pence in 2013. The growth in EPS of 19.3 per cent was significantly ahead of our target.

3 Ⓡ
Operating cash conversion



Target :

Each year, to 2012

100%

Definition

Operating cash conversion is defined as cash generated from continuing operations after capital and development expenditure, expressed as a percentage of operating profit before exceptional items from continuing operations. Cash conversion is an important metric to track the management of our working capital and capital expenditure.

Performance

A target of 100 per cent conversion was set for the three years 2010 to 2012 only, and was met with a total conversion of 117 per cent. For 2013, the conversion was 52 per cent, reflecting the investment made to position the business for future growth and expand facilities in best cost regions.

4 Ⓡ
Relative total shareholder return (TSR)

2013	**2nd Quartile**
2012	3rd Quartile
2011	3rd Quartile

Target :

In medium term

above median performance against the FTSE SmallCap (excluding investment trusts)

Definition

TSR is defined as capital growth plus dividends paid, assuming dividends are re-invested over the period using a three-month opening and closing average.

We believe that TSR is an important KPI because it measures the delivery of shareholder value as well as performance. In addition, it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan – see further details on page 66.

Performance

The Group's TSR for 2013 was 50.3 per cent compared to the median of the comparator group of 42.8 per cent.

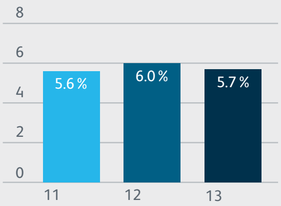
Ⓡ KPIs linked to remuneration (see pages 60-72)

Financial (continued)

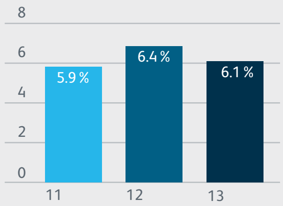
5 ®

Operating profit margin

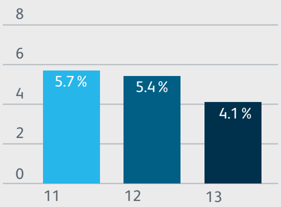
Group



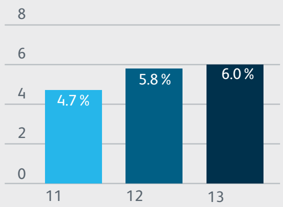
Sensing and Control



Components



IMS



Performance:

Target :

Group:

8-10%

Target :

Sensing and Control:

10%

Target :

Components:

10%

Target :

IMS:

6-8%

Definition

Operating profit margin is defined as operating profit before exceptional items from continuing operations expressed as a percentage of revenue from continuing operations.

This KPI is appropriate because we are focused on increasing the proportion of revenue from those markets where we can make higher returns, in addition to delivering an improvement in operational efficiency.

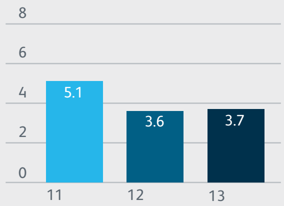
Performance

Operating margins in Sensing and Control were affected by the investments being made to improve future productivity and develop new products. In addition the Components business suffered from lower sales in particular in the first half of the year. The IMS division improved margins and remained within its target range.

Non-Financial

6 ®

Safety performance



Performance:

Target :

Zero injuries

Definition

Safety performance is defined as the number of occupational injuries resulting in three or more days absence per 1,000 employees.

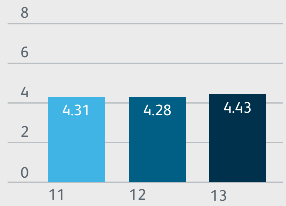
This KPI allows us to compare our performance with that of our peers. We use a UK benchmark published by the Health and Safety Executive and apply this to all of our facilities worldwide, reflecting our commitment to raising standards globally.

Performance

We are committed to a target of zero injuries. Whilst the total number of injuries reduced by five per cent during the year, our average headcount reduced by six per cent, resulting in a marginal increase in our three day or more absence per 1,000 employees.

7

Employee engagement



Target :

In the medium term achieve UK mid-size manufacturing benchmark, 2013: 4.72

Definition

We use our employee survey to measure how our employees feel about working in TT using a scale of 1 (low) to 7 (high) against eight factors (as surveyed by Best Companies Ltd).

Performance

The response rate from this year's survey was 65 per cent, compared to the industry benchmark of 47 per cent.

The results show an improvement of 3.5 per cent in our overall engagement score which is seen as a positive movement given the context of our significant transformation programme which commenced in 2013. We will be sharing the results of our latest survey with our employees and will be developing plans to further drive improvements.

How we are managing our risks

Risk management framework

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.

Risk management and internal controls provide reasonable but not absolute protection against risk. Risk appetite is not static and will be reassessed on an ongoing basis to ensure it continues to be aligned with goals and strategy.

Per-Olof Ahlstrom, Group Head of Risk and Assurance

Risk management developments during 2013

Following changes implemented in 2012 (which included clarifying roles and responsibilities throughout the governance structure, refreshing the Group-wide risk framework, training and communication), 2013 has been a year of consolidating and embedding processes.
The key areas of focus were:

Developments during 2013 include:	Benefits for our stakeholders:
1. Continued to improve management understanding of risk quantification and appetite	
The more structured approach for risk identification and assessment, incorporating a "top-down" and "bottom-up" perspective on risk has been further strengthened by the roll-out of a Group-wide online risk management tool. The tool has enabled management to link and consolidate risks across all levels of the Group, improving visibility and monitoring of risk quantification, values at risk, trends, gap analysis, developments and actions required. The process and supporting tool has improved management risk review, prioritisation and associated actions.	Supports the Board, Audit Committee and executive management with an improved mechanism for understanding risk exposure, defining the risk appetite, prioritising action plans, as well as linking significant risks to company strategy and objectives.
2. More robust risk management for strategic projects	
We have rolled-out consistent project risk assessment for key strategic projects, aligned with the company project management framework. Risk assessments are now part of project steering reviews and the "Go/No Go" decision making process at key milestones/gates.	Improved proactive project risk management enables management to define risk appetite for key project deliverables and business case benefits enhancing the prioritisation and decision making process, thereby strengthening the chances of delivering the Group's objectives.
3. Embedding the refreshed risk culture throughout the Group	
Risk management is an evolving process. This is recognised by ongoing training and advice by divisional and business unit risk representatives, supported by the central risk and assurance team, best practice sharing, gap analysis, and internal benchmarking.	Successful training and communication help build a culture and ability to further embed processes and procedures throughout the organisation. A more deeply embedded risk management culture supports long-term value creation for all stakeholders.

Risk profile

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.

How we are managing our risks

Principal risks

The "top principal risks" presented below are not shown in any order of priority. The risks have been linked to the strategic objectives of Growth markets, Innovation, Globalisation and Culture outlined on page 19. It should be noted that the Group is exposed to additional risks that are not considered material but which could have an adverse impact.

Strategic objective	Risk description and context	Mitigation actions	Change in 2013
	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 representations, 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 demands. Operational transformation programme to leverage best cost manufacturing locations, driving margin improvements. Monitoring of competitors and potential new entrants into specific markets.	

Key to strategic objectives

Growth markets Innovation Globalisation Culture

Key to change in risk

Up No change Down

Strategic objective	Risk description and context	Mitigation actions	Change in 2013
	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.	→

Electrification improving efficiency

Integrating electronic control in automotive applications presents highly demanding design challenges, requiring experience in conventional and specialised PCB development to create mechatronic system solutions. Increasing the efficiency of the internal combustion engine is as high a priority for the automotive industry as many of the emerging advanced safety features.

Saleri has developed a system to deliver efficiency gains, which involves replacing mechanical intercooling systems with intelligent, electronic solutions.

The design team was challenged to deliver and control the power requirements in the harsh environment of the engine bay, which is also becoming increasingly smaller with every new generation of vehicle. As a result, it is necessary to integrate the control electronics alongside the mechanical element, driving the rise in mechatronics. The integration of electronic control in automotive applications is increasing rapidly, creating design challenges for automotive OEMs and their suppliers.

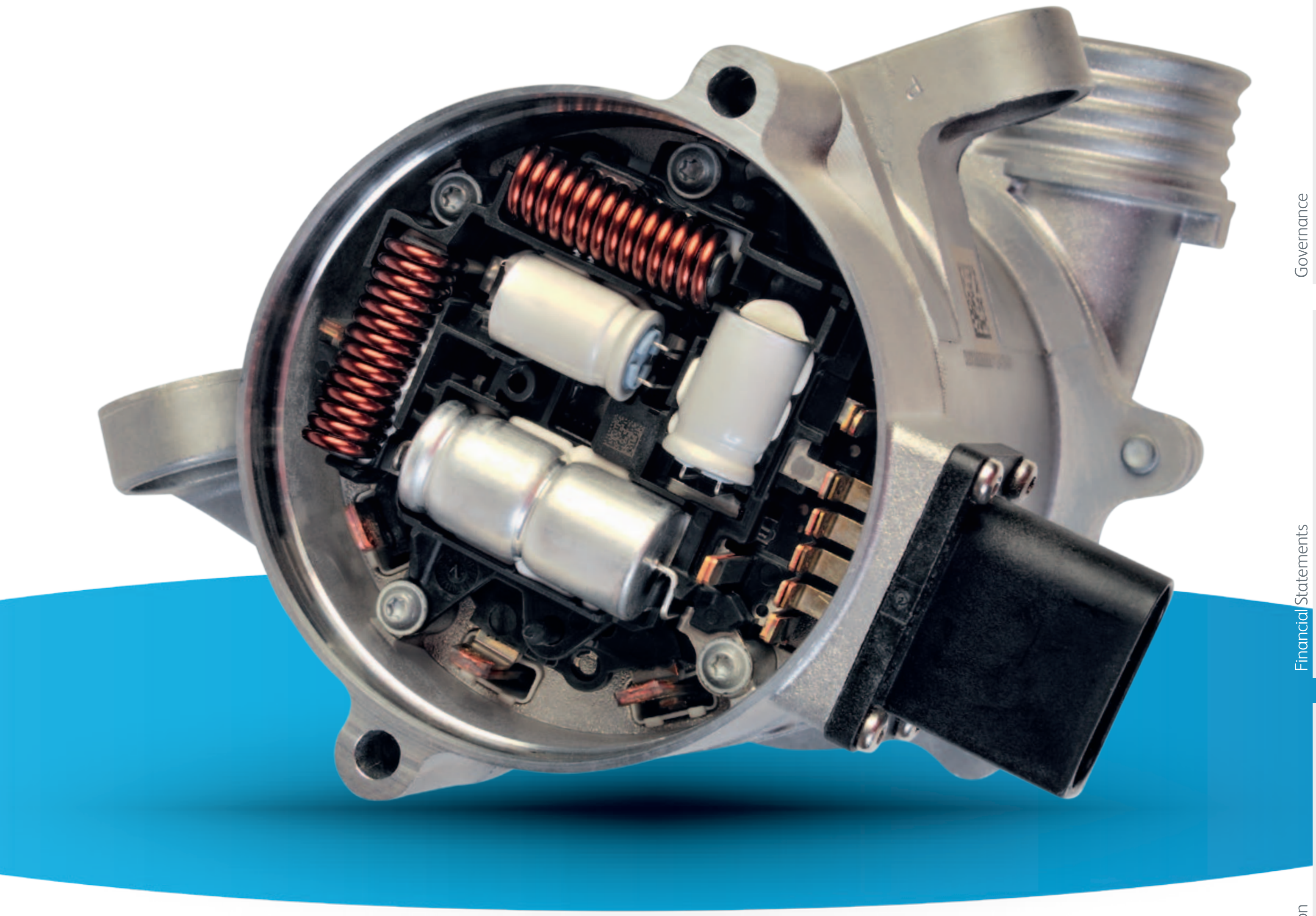
Through its extensive experience in this field, TT Electronics is able to provide the design expertise needed by more manufacturers, to ensure the automotive supply chain is able to continue to meet those challenges.

IMS Research predicts that the average annual growth for intelligent power modules in transportation applications will be 13.5 per cent from 2012 through 2016.

Areas of interest

Operating review — See pages 30-39 for more detail

Financial review — See pages 40-41 for more detail



Operating review

A year of strategic alignment and focus

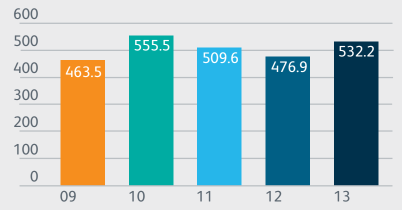
Progress

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.

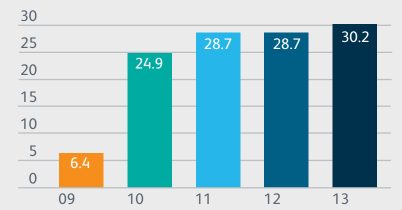
Geraint Anderson
Group Chief Executive
12 March 2014

Shatish Dasani
Group Finance Director
12 March 2014

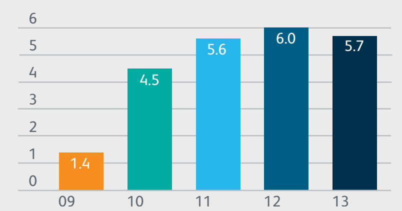
Revenue £m



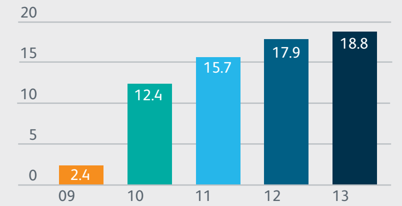
Operating profit[1] £m



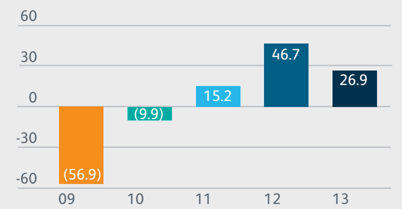
Operating profit margin[1] %



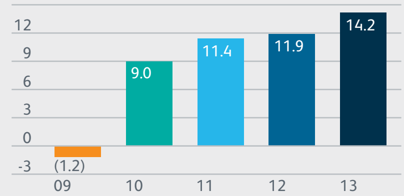
Return on average capital employed[2] %



Net cash/(debt) £m



Earnings per share[1] pence



During 2013, we created the Sensing and Control business to bring together our relevant capabilities to better capture increasing market opportunities for high performance sensors and integrated control electronics. This has resulted in positive momentum with a number of our key customers and improved our ability to provide innovative solutions to our target markets.

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

[1] Stated before exceptional items

[2] Defined as operating profit before exceptional items divided by average capital employed

Operating review continued

Group overview (continued)

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 95. 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.

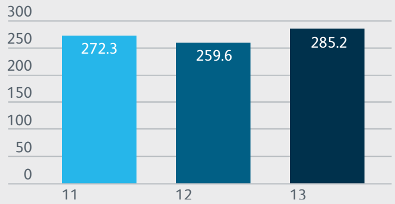
Dividend

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.

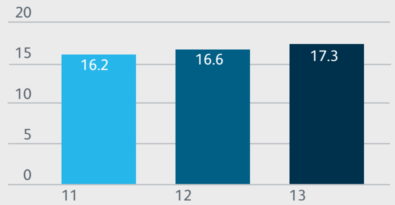
Group outlook

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.

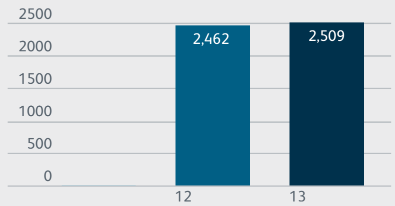
Revenue £m



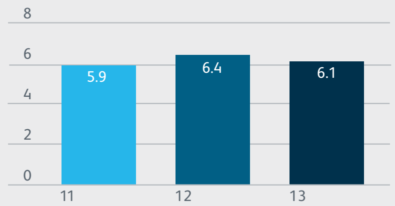
Operating profit[1] £m



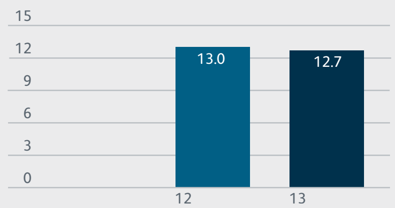
Year end headcount[2] number



Operating profit margin[1] %



Return on capital employed[1,2] %



[1] Before exceptional items

[2] Data for 2011 not readily available for new organisational structure implemented during 2013

Sensing and Control

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.

Delta Group

The Optoelectronics business unit within our Sensing and Control division has a long-term relationship with Delta Group, a leading global manufacturer of energy management systems. The success of this relationship has led to Optoelectronics being invited to develop a new, high-end customised optical sensor for Delta's next generation of products.

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.

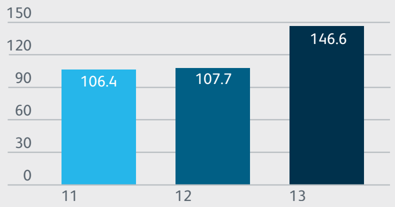
Performance

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).

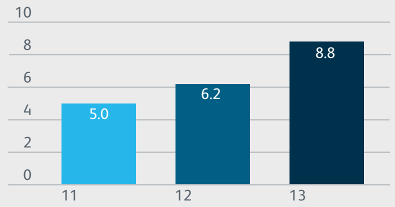
Outlook

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.

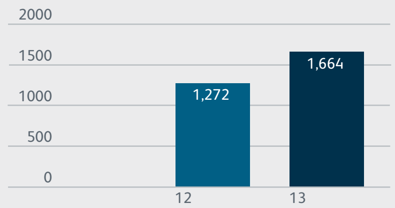
Revenue £m



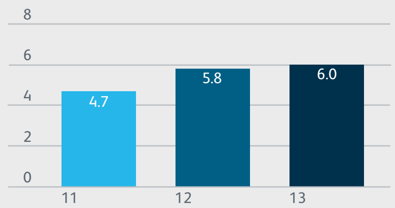
Operating profit[1] £m



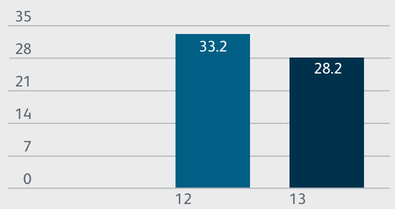
Year end headcount[2] number



Operating profit margin[1] %



Return on capital employed[1,2] %



[1] Before exceptional items

[2] Data for 2011 not readily available for new organisational structure implemented during 2013

Integrated Manufacturing Services (IMS)

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

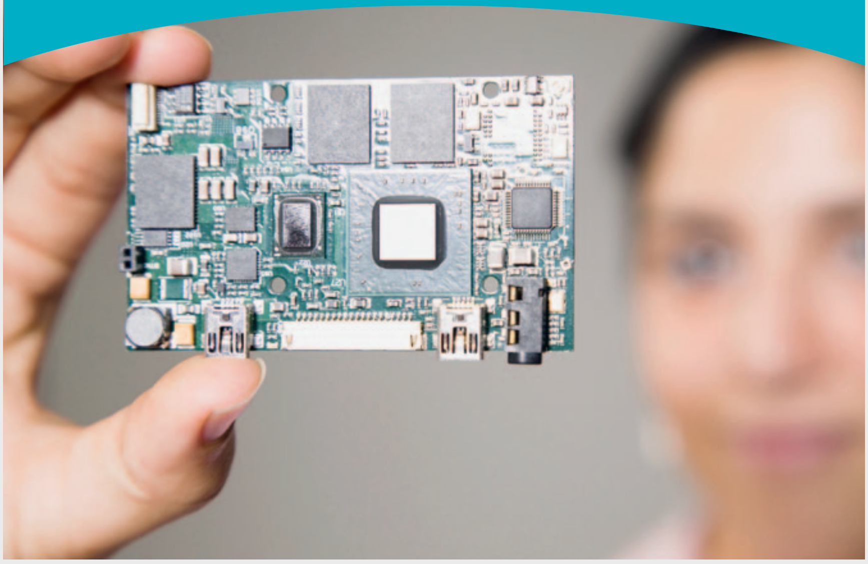
The division performed well during 2013, despite difficult market conditions. New business growth exceeded £30 million, with additional incremental growth attained through the acquisition and integration of ACW. Key wins, specifically within the aerospace market, have further validated our strategy for 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. See page 39 for further details.

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).

Meggitt



In April 2013 the IMS division was awarded Meggitt PLC's 2013 Supplier Excellence Award. Presented at Meggitt's 2013 European Supplier Conference, this prestigious award recognises IMS' excellence in business support and our commitment to quality throughout 2012.

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. See page 14 for further details.

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

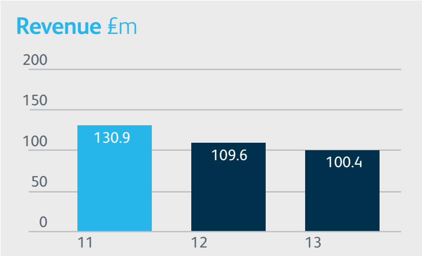
In 2013, conditions in our target markets remained challenging, although there were signs of marked improvement as we finished the year. The division saw particular success within the aerospace and defence markets, as we continued to expand our customer base through our global manufacturing footprint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

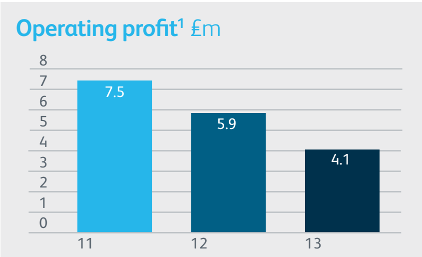
Performance

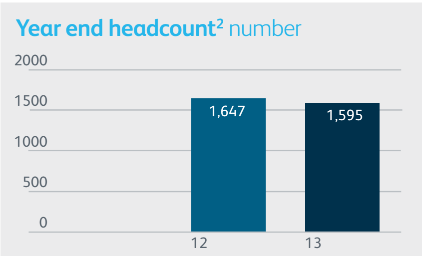
Revenue for the year was £146.6 million (2012: £107.7 million), representing underlying growth of 15.9 per cent excluding the effect of the ACW business acquired in December 2012 and foreign exchange. Operating profit before exceptional items improved from £6.2 million in 2012 to £8.8 million in 2013 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.

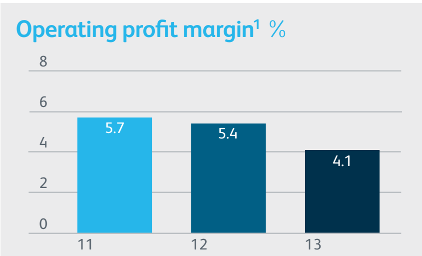
Outlook

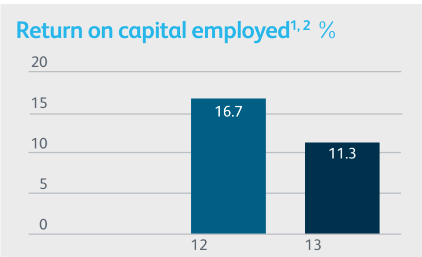
We anticipate making additional progress during 2014, further strengthening our competitive position in key markets. Production is planned to ramp up in Romania, establishing it as a key centre for the division.











[1] Before exceptional items

[2] Data for 2011 not readily available for new organisational structure implemented during 2013

Components

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).

AEC

Through our operating company Semelab Ltd, our Power and Hybrid business unit was presented with the annual Best Electronics Supplier award for 2012 by Aero Engine Controls (AEC), part of the Rolls-Royce Group. Semelab emerged as the clear winner with a 100 per cent record for on time delivery over a period of 24 months and no quality issues for 20 months.

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 on pages 22 and 23.

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.

Our Corporate Responsibility policy

With global organisations facing significant business and political challenges and risks in a changing world, corporate responsibility ("CR") assists in ensuring good and responsive management. Within TT Electronics, we manage our business responsibly and sustainably in accordance with the expectations of our multiple stakeholders, helping us attract and retain the best people whilst promoting our corporate reputation. We understand CR as a dynamic discipline to manage the risks and maximise opportunities of an increasingly global corporation.

Our CR agenda covers issues identified as having the greatest potential to affect the long-term sustainability of the Group, by directly impacting our reputation or ability to operate. As an electronics manufacturer with customers and operations around the world, our global CR policy focuses primarily on the four key areas identified below, which are material to our long-term performance, supplemented at a local level by CR programmes designed to address local issues:

- Workplace – Investing in the development of skills, health and safety and motivating our employees to create a more sustainable business;
- Marketplace – Improving the environmental performance and impact of our suppliers to better serve our customers;
- Environment – Improving the environmental impact of our operations and the efficiency of our products; and
- Community – Engaging with the communities within which we operate.

We have global frameworks in place for the areas of Workplace, Marketplace and Environment, whilst also allowing local businesses the flexibility to determine those areas on which to focus and to tailor their own approach. The fourth area, Community, is driven predominantly by local issues. This enables the businesses to support causes relevant to their location.

In addition to these core areas of focus, our new brand identity has been designed to reflect our expectation of both internal and external behaviours, including the conduct of relationships with suppliers and in the workplace, which are critical to our reputation.

The Corporate and Social Responsibility Committee, chaired by the Group Chief Executive, is responsible for defining our strategic CR priorities, monitoring our CR performance and ensuring that our CR activity remains directly related to our overall business objectives.

Electronic Industry Citizenship Coalition (EICC)

TT Electronics is a full member of the Electronic Industry Citizenship Coalition (EICC). The EICC is an alliance of the world's leading electronics companies and members include Microsoft, Apple, Dell, Intel and HP. Membership of the EICC enables us to share and benefit from best practice and to work collectively with peer organisations on issues of common concern facing our industry.

The vision of the EICC is to create a global supply chain that consistently operates with social, environmental and economic responsibility. To assist with progress towards the EICC vision, members adhere to a common Code of Conduct.

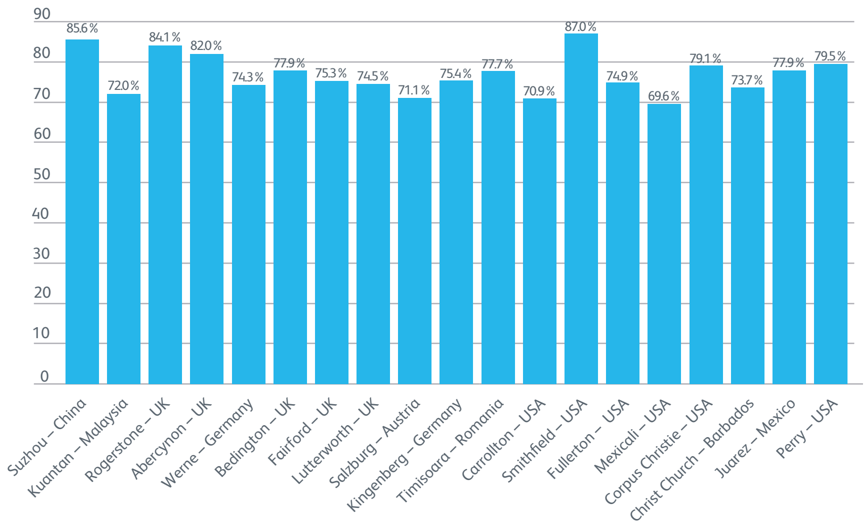
The Code of Conduct provides guidelines for performance and compliance in five critical areas:

- Environment
- Ethics
- Health and safety
- Labour
- Management systems

The Code of Conduct establishes standards to ensure that working conditions are safe, that workers are treated with respect and dignity and that business operations are environmentally responsible and conducted ethically.

We have adopted the EICC's Code of Conduct and embedded it throughout our operating companies. Through engagement with the EICC, we gain a better understanding of industry best practice and are able to respond proactively to the issues that affect our industry, particularly around our global supply chains.

EICC Code of Conduct survey results



During 2013, in order to evaluate our adherence to the EICC Code of Conduct, all of our manufacturing facilities completed an EICC survey measuring performance and social practices, as well as the performance of social and environmental management systems. All sites demonstrated high levels of adherence to the Code of Conduct, leading to them all being assessed as either low or medium risk. The results are shown on a site-by-site basis above.

Strong business ethics form the basis for all of our relationships with employees, customers, partners, competitors and suppliers. Our Statement of Values and Business Ethics Code sets out the operating principles to which we adhere.

One of TT Electronics' competitive strengths is the fact that we are an ethical company, operating with integrity and to one standard worldwide. We do not tolerate corruption or bribery and we are committed to maintaining the fundamental principles of fairness, honesty and common sense, which are the heart of the Group's philosophy, values and corporate standards. We operate effective systems and processes to counter corrupt practices including an anonymous reporting facility where individuals can notify us of concerns.

As a UK listed company, we are bound by the laws of England and Wales, including the UK Bribery Act 2010 (the "Act"). This law is extra-territorial in scope, with broad application not only to British companies, citizens and residents, but also to all foreign companies doing business in the UK, regardless of whether the act or omission constituting bribery occurs in or outside the UK. All companies within the Group operate within the framework of the Act, as well as local laws which have direct effect. All employees have access to an explanatory guide to the Act contained within our Worldwide Anti-Corruption and Bribery Policy. This Policy is reinforced with an on-line training programme.

Workplace:

Employees

We believe that our 5,768 employees are our key assets. 49.5 per cent are male and 50.5 per cent are female. The table below provides a further breakdown:

Employees (full time equivalent)	Male	Female
Main Board Directors	7	0
Senior managers (Operating Board members and their direct reports)	45	8
Austria	205	88
Barbados	27	86
China	418	475
Germany	482	529
India	171	19
Malaysia	50	440
Mexico	420	410
Romania	150	96
UK	633	403
USA	300	366
All employees	2,856	2,912

Corporate responsibility continued

Creating a good working environment at all of our locations is of paramount importance. We strive to build a supportive, diverse and engaging workplace, whilst nurturing a high performance corporate culture, built around our core values.

Human rights

TT Electronics is committed to upholding the human rights of our workers and to treating them with dignity and respect as understood by the international community. Our Human Rights Code is contained within the EICC Code of Conduct and covers all workers including permanent, temporary, migrant, student, contract, direct, indirect and other types of worker. Our Code details expected labour standards covering: freely chosen employment, child labour avoidance, working hours, wages and benefits, humane treatment, freedom of association and non-discrimination. The Group does not engage in discrimination based on race, colour, age, gender, sexual orientation, ethnicity, disability, pregnancy, religion, political affiliation, union membership or marital status in hiring or in employment practices such as promotions, rewards or access to training.

Training and development

We employ more than 5,700 people globally and will continue to invest in their training and development. We strongly believe in equipping our people with the skills to do their jobs effectively, encouraging them to develop to their full potential. TT Electronics provides a variety of tailored training and development opportunities. In 2013, the business units continued their Six Sigma training programmes with further development of black, yellow and green belts. Of our seven black belts, five are male and two are female.

During 2013, we continued the roll out of our global management development programme, "Aspire". The aim of Aspire is to provide supervisors and managers with the fundamental skills for coaching their employees. In addition, during the year we initiated a tailored leadership development programme for 50 of our senior managers.

Employee engagement

An engaged workforce significantly enhances company performance. Engaged employees are more likely to perform well, promote our business and remain with us for longer. They are also more likely to enhance our relationships with our customers, stakeholders and the communities within which we operate.

Employee engagement begins with fostering a culture that is open, transparent and collaborative. At all levels, we are committed to encouraging a high degree of openness and equality which will continue to enhance our culture. Where possible, a number of our facilities have removed walls and offices in favour of an open plan environment.

We strive to maintain engagement of employees at all points from the application process to the retirement process.
We approach every interaction with openness, honesty and integrity. Strong relationships built on trust are at the core of what we do. Collaboration across the Group and beyond assists our ability to gather important insights and ideas, improving the way we conduct our business and serve our customers.

In 2013, we continued to make significant progress to connect continually with our employees at all levels, and we see this as a critical component of engagement. Throughout the Group, we provide numerous open, transparent and two-way communication channels. Employees are provided with a wide range of communication tools to assist in their understanding of our goals and objectives. For example, all managers are encouraged to attend the quarterly webcast presented by the Group Chief Executive and Group Finance Director and to cascade pertinent messages to their teams. We use a variety of communication channels, including team briefings, suggestion schemes, employee forums and our global intranet.

Our intranet showcases a broad range of activities from across the Group. The CR section focuses on initiatives, employee achievements and charitable causes in which our people are involved, both through work and in the outside world.

Managers and employees alike are encouraged to promote and live our corporate values, collectively making our people feel proud to be part of our organisation. During 2013, over 1,200 "Thank You" cards were issued through our global recognition programme "Inspire", which acknowledges individual and team contributions through monthly recognition awards, quarterly exceptional awards and bi-annual Group Chief Executive awards.

Health and safety

We continued to make progress during 2013 in creating a working environment that supports the health, safety and well-being of our people. Whilst the total number of injuries reduced by five per cent during the year, our average headcount reduced by six per cent, resulting in a marginal increase in our three day or more absence per 1000 employees. In the first quarter of 2014, our facility in Malaysia accumulated three million working hours without an accident.

Marketplace:

Our social and environmental practices are important in embedding sustainability into our supply chain. We require our suppliers to ensure that their employees operate in a safe environment with a strong code of conduct and a culture which promotes effective business ethics. We also expect them to adhere to, and fully support, relevant legislation both globally and within their region. We adhere to EICC or relevant industry codes of conduct, such as ZVEI which represents the economic, technological and environmental policy interests of many of our European suppliers. We continue to work with our supply chain in terms of development and adherence to best practices. All major suppliers have completed EICC self-assessment questionnaires, or had EICC Risk Assessment (RA1) reviews carried out during 2013. We continue to work closely and directly with the EICC and our vendors in terms of ongoing assessment and development.

Environment:

TT Electronics strives to ensure that all facilities worldwide meet or exceed local and regional guidelines for environmental protection.

We are a registered participant in the UK's Carbon Reduction Commitment (CRC) energy efficiency scheme. During 2013 we continued to consolidate our position in terms of optimised energy consumption and significantly improved our ranking in the published CRC league table of participants. We collect data monthly on the key carbon emission drivers from all of our manufacturing sites worldwide. In terms of other greenhouse gases (Methane, Nitrous Oxide, HFCs, PFCs and Sulphur Hexafluoride), during 2013 we monitored outputs from our manufacturing plants worldwide. These investigations revealed that the greenhouse gas emissions resulting from our operations are not material. Accordingly, these are reported under 'Other statutory disclosures' on page 74. Our process in terms of data collection and verification is auditable and robust.

All of our manufacturing plants employ precise monitoring and undertake regular reviews, with results regularly fed back to the Divisional leadership teams. We are seeking to analyse best use of renewable energy sources, and are actively considering localised wind generation and targeted solar arrays. We are also pursuing the extensive use of LED lighting in our manufacturing areas, and individual site trials are currently in progress.

Our UK smart metering programme was completed during 2013 and all our UK manufacturing sites now benefit from visibility of real time data with which to further monitor and manage their gas and electricity consumption. The use of real time information will improve data flow and allow for more effective targeting of areas for improvement. We continue to work with our energy provider to take advantage of its extensive web based targeting and monitoring information. All our UK manufacturing sites now actively engage in these processes as part of their energy reduction programmes.

During 2013 we extended our Carbon Trust Standard accreditation for a further two years following a successful audit in the UK.

Community:

Maintaining an open dialogue with our communities has allowed us to build positive and constructive relationships at the local level. Our employees are encouraged to become active members of their communities.

In order to encourage students to pursue rewarding careers in Science, Technology, Engineering and Mathematics (STEM) related areas, our IMS business hosted an event at its New Chapel Electronics (NCE) facility for aspiring engineers in Gloucestershire, UK. NCE has extensive experience in engineering design and manufacturing technology related to the aerospace and defence industry – an industry which provides 59,000 direct jobs in the South West of England alone.

The unique technologies and engineering expertise of NCE were shared with a group of students aged between 10 and 11 from Southrop Primary School. They enjoyed a tour around the NCE facility, where they observed a leading aerospace technology company in their own hometown. Highlights of the plant tour included a hands-on demonstration of the 3-D CAD (computer aided design) software used by NCE engineers and a tour of NCE's in-house machine shop.

Students from Southrop Primary School on a tour around the New Chapel facility in the UK

Geraint Anderson and Pat Murray with children from Anubandha, Bangalore

Employees at our research and development centre in Bangalore have continued their work with a non-profit organisation which aims to enrich the lives of underprivileged children in Bangalore and beyond through basic education, healthcare, and nourishment.

During a recent visit, Geraint Anderson and Pat Murray spent quality time with children from Anubandha over breakfast and presented them with school bags containing books, games and stationery.

2013 was the inaugural year of our UK charity partnership with **Macmillan Cancer Support.** Macmillan is a national organisation but has strong ties and dealings within our local UK communities.

Our employees have provided outstanding support to this charity over the last 12 months. Through fundraising and volunteering efforts, they have taken part in everything from bike rides to marathons, organised raffles and cake bakes, dressed up and dressed down. The work and energy that our employees have dedicated to these activities is admirable. In total, through our employees' efforts we have raised £83,200 for Macmillan and will continue the partnership in 2014.

In a further example of our support for Macmillan, a team of 22 people (including family and friends) from our IMS division based at Rogerstone, UK, set off along the challenging Taff Trail, aiming to cycle the 55 mile journey from Brecon to Cardiff Bay. In successfully completing the challenge, they raised a total of £8,000.

As an organisation we believe that it is our responsibility to ensure that our activities support strong, thriving and diverse communities around the world. We aim to make a distinctive contribution to equality and social development by establishing effective partnerships and programmes that make best use of the energies and skills of our employees. We will continue to support our employees in fundraising for charities and voluntary work, recognising both the benefit to the community and to the employees themselves. We wish to put on record our thanks to all those who gave something back to their local communities during the year.

A team of 22 people from our IMS division at Rogerstone set off on a 55 mile journey from Brecon to Cardiff Bay as part of our support for Macmillan

Approved by the Board on 12 March 2014 and signed on its behalf by:

Geraint Anderson
Group Chief Executive
12 March 2014

Shatish Dasani
Group Finance Director
12 March 2014

Introduction by the Chairman

> "The focus on simplifying structures and common business processes has had a significant impact on effective corporate governance throughout the Group."

Sean Watson, Chairman

In this section

The Board is committed to maintaining the highest standards of corporate governance, which we consider to be of fundamental importance to the future success of TT Electronics. This commitment is demonstrated by our continued attention to embedding our core values, principles, ethics and risk management throughout the organisation during 2013. In particular, our focus on simplifying structures and common business processes has enhanced the effectiveness of corporate governance.

The regulatory and reporting landscape for UK listed companies continued to evolve during 2013, with the introduction of the new Strategic Report, new requirements to report on greenhouse gas emissions, and a new formal requirement on the Board to ensure that the Annual Report presents a "fair, balanced and understandable" assessment of the Company's financial position and future prospects. These new requirements, together with the enhanced disclosures required by the Audit Committee, have been the subject of detailed planning throughout the year, and processes have been adopted to ensure we are able to meet these obligations in a transparent and open manner.

On a similar theme, this year's Annual Report represents the first occasion on which full implementation of the recent reforms on remuneration reporting is required. This includes, for the first time, a binding shareholder vote on remuneration policy, in addition to a vote to adopt the Remuneration report (as set out on pages 60 to 72 of this report). We have also taken the opportunity to review the long-term incentives offered to executives and are proposing to replace our existing Long Term Incentive Plan with one which more closely aligns with current market practice. This new incentive plan will be put to shareholders at our forthcoming Annual General Meeting.

Although there were no changes to the composition of the Board or its Committees during 2013, the Board continued to pay significant attention to succession planning throughout the year. In particular, following Geraint Anderson's decision to step down as Group Chief Executive, the Nominations Committee oversaw the process of securing a successor to the role of Group CEO, culminating in the announcement in January 2014 of the appointment of Richard Tyson, who will join the Group by the end of June 2014. Similarly, the Board has played an active part in addressing succession planning issues across the wider leadership team, particularly in light of the creation of the Sensing and Control business during 2013, which has resulted in several key divisional appointments.

The Board continues to take the view that it has an effective, well-balanced structure, which includes a group of non-executives who collectively draw on a wealth and variety of experience, thus providing for meaningful discussion, constructive challenge and effective decision making. In particular, the Board has continued its policy of early engagement in the strategic planning cycle during 2013, with two separate meetings having been devoted exclusively to consideration of the strategic direction of the business in the coming years. Although not required to do so under the UK Corporate Governance Code, all Directors will submit themselves for re-election at the 2014 AGM, thereby continuing the process first adopted in 2013.

Diversity is regarded as a key business enabler across the Group, and the Board seeks to ensure that equal opportunity is afforded to all, regardless of gender, age, ethnic background or religious belief. The Board also believes, however, that of equal importance is the need to ensure that staff skills and competencies are matched to the strategic and operational needs of the business in our core markets.

The Board (primarily through the activities of the Audit Committee) has been focused on ensuring that the positive steps taken during 2012 in developing the Group's risk management processes (which included clarifying roles and responsibilities throughout the governance structure, refreshing the company-wide risk framework, training and communication) were consolidated and embedded during 2013. We have also placed increased emphasis on improving understanding of risk quantification and appetite, and robust project risk management. These enhancements to our risk management processes, together with our continued focus on encouraging the correct behaviours, serve to embed our core values throughout the Group and to strengthen our position as a trusted and respected partner to the world leading manufacturers with whom we do business.

Sean Watson
Chairman

Board of Directors and Company Secretary

Sean Watson (65)
Chairman

Committees:
Nominations (Chairman)
Corporate Governance (Chairman)
Remuneration

Joined TT:
2007 as an independent non-executive Director. Chairman since May 2010.

Experience:
A former partner and Head of Corporate Finance with CMS Cameron McKenna LLP. Was a non-executive Director of Informa plc from 2000 to 2009. A Trustee of Princess Alice Hospice.

Geraint Anderson (54)*
Group Chief Executive

Committees:
Corporate and Social Responsibility (Chairman)
Risk (Chairman)

Joined TT:
2008

Experience:
Previously Vice President and General Manager of the Worldwide Service Provider Organisation for Linksys, a division of Cisco Systems, Inc. Appointed a non-executive Director and Chair of the Remuneration Committee of Volex plc in November 2013.

* On 14 January 2014, it was announced that Geraint Anderson will step down from his position as Group Chief Executive. His successor, Richard Tyson, will join the Group by the end of June 2014.

Shatish Dasani (52)
Group Finance Director

Committees:
Corporate Governance
Risk

Joined TT:
2008

Experience:
A Chartered Accountant, who has held senior finance positions with De La Rue plc, Lafarge SA and Blue Circle Industries plc. Was also previously a non-executive Director of Camelot plc.

Tim Roberts (43)
Group Business Development Director

Committees:
Corporate Governance
Risk

Joined TT:
2008. Appointed to the Board in January 2010. Assumed responsibility for the Group's Magnetics, Connectors and Power & Hybrid businesses during 2013.

Experience:
Previously Strategy and Business Development Director with Spirent Communications plc and formerly a solicitor specialising in corporate finance.

John Shakeshaft (59)
Senior Independent Non-executive Director

Committees:
Remuneration (Chairman)
Audit
Nominations
Corporate and Social Responsibility

Joined TT:
2007

Experience:
Currently Chairman of Ludgate Environmental Fund Limited; Deputy Chairman and Chair of the Audit Committee of The Economy Bank NV; Chair of the Investment Committee of Corestone, AG; director and chair of the Audit Committee of Tele2 AB. Director of Valiance Investment Funds. External member and Chair of the Audit Committee of the Council of Cambridge University. Formerly a Managing Director at ABN AMRO and Lazard Brothers, having held senior positions within Barings, Morgan Stanley and Morgan Grenfell. Joined the City in 1986 following a number of overseas postings with HM Foreign and Commonwealth Office.

Stephen King (53)
Independent Non-executive Director

Committees:
Audit (Chairman)
Nominations
Corporate Governance

Joined TT:
2011

Experience:
Currently Group Finance Director of Caledonia Investments plc and Chairman of the Audit Committee of the Board of Bristow Group Inc. Formerly non-executive Director and Chairman of the Audit Committee of The Weir Group plc. Group finance director of De La Rue plc from 2003 to 2009 and, prior to that, finance director of Aquila Networks plc (formerly Midlands Electricity plc). A Chartered Accountant, Stephen has also held senior financial positions in Lucas Industries plc and Seeboard plc and was also a non-executive director of Camelot plc from 2008 to 2009.

Michael Baunton CBE (63)
Independent Non-executive Director

Committees:
Audit
Nominations
Remuneration

Joined TT:
2010

Experience:
Currently Chairman of the Board of SMMT Industry Forum Limited (the Society of Motor Manufacturers and Traders' Industry Forum), Non-Executive Chairman of VTL Group and a non-executive Director of ACAL Energy Ltd. Awarded a CBE in 2004 for services to the automotive and engineering industries in the UK. Previously held senior executive roles with companies including Caterpillar Inc, Perkins Engines Company Limited and Tenneco Inc.

Lynton Boardman (47)
Group General Counsel & Company Secretary

Committees:
Risk
Corporate Governance

Joined TT:
2012

Experience:
A qualified solicitor, having practiced with Simmons & Simmons, MacFarlanes and Burges Salmon LLP. Formerly Head of Legal (Europe, Middle East and Africa) at Syngenta Crop Protection and then General Counsel and Company Secretary of QinetiQ Group plc from 2002 to 2011.

Operating Board

The Operating Board comprises the executive Directors, the Group General Counsel & Company Secretary and the following executives:

Pat Murray (54)
Divisional Chief Executive – Sensing and Control

Committees:
Risk

Joined TT: 2009

Experience:
Previously Global Leader of Honeywell's Sensor Division and Regional Vice-President and General Manager for Europe, Middle East and Africa. A chartered engineer and Six Sigma green belt certified.

Michael Robinson (57)
Senior Vice President – Operations – Sensing and Control

Committees:
Risk

Joined TT: 2014

Experience:
Previously Senior Vice President, Global Operations and Supply Chain for TE Connectivity (formerly Tyco Electronics) where he specialised in Lean implementation and manufacturing optimisation. A masters degree qualified engineer he previously spent 27 years at United Technologies Corporation where he held a variety of manufacturing and engineering roles in their aerospace business.

John Molloy (50)
Divisional Chief Executive – IMS

Committees:
Risk

Joined TT: 2005

Experience:
Joined the Group when it acquired Dage (a business which now forms part of the IMS division) where he had been working in senior management roles for six years, primarily in Asia. Previously held senior management positions with electronics companies and EMS providers.

Gareth Mycock (48)
Senior Vice President – Resistors

Committees:
Risk

Joined TT: 2007

Experience:
Previously held senior engineering and operations roles with The Morgan Crucible Company plc, working in the fields of electronic materials and components. A masters degree qualified materials scientist, he is fluent in German.

John Leighton-Jones (44)
Group Human Resources Director

Committees:
Corporate and Social Responsibility
Risk

Joined TT: 2010

Experience:
Joined from QinetiQ Group plc, where he was Human Resources Director. Previously worked in a variety of senior human resources roles. Originally trained as a tax accountant.

Per-Olof Ahlstrom (37)
Group Head of Risk and Assurance

Committees:
Risk

Joined TT: 2012

Experience:
Joined from Everything Everywhere Limited, a joint venture between Orange UK and T-Mobile UK, where he was Director, Risk Assurance and Internal Audit. Previously worked with T-Mobile and PwC covering programme, service integration, risk, audit and compliance management. A CISA accredited Information System Auditor with a BSc and MSc, he is fluent in Swedish.

Lee Burtelson (44)
Group Marketing Director

Committees:
Risk

Joined TT: 2011

Experience:
Previously responsible for Honeywell's pressure and thermal sensor portfolios serving global medical, industrial and aerospace markets. Held a variety of roles at Honeywell Sensing and Control division over a period of 20 years. An engineer who holds an MBA.

Corporate governance

The Company is committed to achieving and maintaining the highest standards of corporate governance. The main and supporting principles of good corporate governance set out in the UK Corporate Governance Codes 2010 and 2012 (“Code”) have been complied with throughout the year ended 31 December 2013. Details and explanations of the application of the principles of corporate governance are set out below.

The Board

Subject to the Company’s Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The Board’s main roles are to provide leadership to the management of the Group, determine the Group’s strategy and ensure that the agreed strategy is implemented. The Board has also reserved certain specific matters to itself for decision. These include financial policy and acquisition and disposal policy. The Board appoints its members and those of its principal Committees having received the recommendations of the Nominations Committee. It also reviews recommendations of the Board Committees and the financial performance and operation of the Group’s businesses. It regularly reviews the identification, evaluation and management of the principal risks faced by the Group and the effectiveness of the Group’s system of internal control.

During 2013, the Board comprised three executive Directors and four non-executive Directors. All of the Directors served throughout the year. John Shakeshaft is the senior independent non-executive Director. On 14 January 2014, it was announced that Geraint Anderson will step down from his position as Group Chief Executive after six years in the role. His successor, Richard Tyson, will join the Group by the end of June 2014 and on the same date, Geraint Anderson will step down as Group Chief Executive and member of the Board.

Board and Committee meetings are scheduled in line with the financial calendar of the Company, thereby ensuring that the latest operating data is available for review and sufficient time and focus can be given to matters under consideration. During the year there were seven principal Board meetings on scheduled dates for which full notice was given. Of these principal meetings, two were held at different operational locations within the Group: in July, the Board meeting was held at TT Electronics Sensing and Control SRL, a manufacturing facility set up in 2011, in Timisoara, Romania; whilst the October Board meeting was held at TT Electronics Integrated Manufacturing Services Limited, a subsidiary located in Rogerstone, UK. Both visits provided the non-executive Directors with an opportunity to meet employees and gain a better understanding of the companies’ operations.

Beyond these principal meetings, the Board held two strategy meetings during the year, both of which were fully attended. Additional meetings are held as and when required and, during 2013, four such meetings took place. The Board has held two principal meetings and one additional meeting to date during 2014. Full details of each Director’s Board and Committee meeting attendance are given on page 53 and in the relevant Committee report.

Directors

Directors’ biographies including the Committees on which they serve and chair are shown on pages 48 and 49.

At the time of his appointment as Chairman, Sean Watson was considered to be independent in accordance with the provisions of the Code. All the remaining non-executive Directors are also considered to be independent as defined by the Code.

In accordance with the Company’s Articles of Association each Director will offer himself for re-election at the first Annual General Meeting held following his initial appointment and thereafter, every three years. However, continuing the best practice first adopted at the 2013 AGM, all Directors will retire and, being eligible, offer themselves for re-election at the forthcoming AGM. Following formal performance evaluation, the performance of each Director continues to be effective and to demonstrate commitment to the role.

Directors’ interests

The Directors of the Company at 31 December 2013 held interests in the following numbers of the Company’s Ordinary shares of 25 pence each on 1 January 2013, 31 December 2013 and 10 March 2014:

	10 March 2014 Ordinary shares	31 December 2013 Ordinary shares	1 January 2013 Ordinary shares
Sean Watson	190,000	190,000	190,000
Geraint Anderson	725,156	725,156	560,000
Shatish Dasani	829,144	829,144	708,000
Tim Roberts	174,303	174,303	130,475
John Shakeshaft	51,206	51,206	51,206
Michael Baunton	72,717	72,717	72,717
Stephen King	100,000	100,000	100,000

The interests of the Directors in the Company’s share options and Long Term Incentive Plan are shown in the Directors’ remuneration report on pages 68 to 70.

Corporate governance continued

The Chairman and Group Chief Executive

The division of responsibilities between the Chairman and the Group Chief Executive has been defined, formalised in writing, and approved by the Board:

The Chairman maintains responsibility for the leadership and effectiveness of the Board and setting its agenda; ensuring that all Directors receive accurate, timely and clear information on financial, business and corporate matters to enable them to participate effectively in Board decisions; facilitating the effective contribution of non-executive Directors in particular; ensuring constructive relations between executive and non-executive Directors; and ensuring effective communication with shareholders. He is also responsible for ensuring that the performance of individual Directors, the Board as a whole and its Committees is evaluated at least once a year.

The Group Chief Executive is responsible for the operations of the Group. In particular, he is responsible for developing Group objectives and strategy, having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders and, following presentation to, and approval by, the Board, for the successful implementation and achievement of those strategies and objectives. His other areas of responsibility include managing the Group's risk profile, including its health and safety performance; ensuring that the Group's businesses are managed in line with strategy and approved business plans, and comply with applicable legislation and Group policy; ensuring effective communication with shareholders; and setting Group human resource policies, including management development and succession planning for the senior executive team.

Board procedures

All Directors have access to the advice and services of the Group General Counsel & Company Secretary and are offered training to fulfil their role as Directors, both on appointment and at any subsequent time. There is an agreed procedure for any individual Director to take independent professional advice at the Company's expense if he considers it necessary.

In accordance with the provisions on conflicts of interest in the Companies Act 2006, the Company has put in place procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflicts by the Board. In deciding whether to authorise a conflict or potential conflict, the Directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict, and the terms of authorisation, may be reviewed at any time and, in accordance with best practice, a review of Directors' conflicts of interests is conducted annually.

Board and Committee performance evaluation

In accordance with the Code, the Board conducted an evaluation of its performance and that of its principal Committees during 2013. The potential use of external facilitation of the Board performance evaluation process was considered during the year, but was not felt to be appropriate in light of the forthcoming changes to the Group Chief Executive position. External evaluation will remain on the agenda for consideration by the Board during 2014.

The Board performance evaluation programme was led by the Chairman. Each Director completed a questionnaire which was used to score and comment on a number of performance criteria. These individual responses were then compiled into a single report by the Group General Counsel & Company Secretary and this was circulated to the Board for discussion and detailed review. It was concluded that the Board was performing satisfactorily, noting in particular that:

- Early participation in the 2013 strategy process, with open discussion of strategic options, had been of great benefit;
- Risk management continued to improve, with changes to the composition of the Risk Committee and the format of its meetings, together with a more proactive approach and increased focus on key areas by the Audit Committee, having contributed to the progress made in this area;
- Increasing the Board's engagement on matters of Corporate and Social Responsibility should continue to be given greater focus; and
- The Board had performed well in addressing a number of significant transformational matters over the year, but would need to remain vigilant in monitoring successful implementation of these programmes and the associated risks.

Directors' performance evaluation

In accordance with the Code, the performance of individual Directors was also evaluated.

Each of the non-executive Directors completed a self-assessment questionnaire which required them to score their own performance against a number of criteria. The Chairman then held private discussions with each non-executive Director and this provided an opportunity to discuss any issues which had arisen in respect of either their individual assessments or those of the Board and its principal Committees. In respect of the Chairman's performance, the other non-executive Directors, led by the senior independent non-executive Director, and with input from the Group Chief Executive, met privately to discuss this, with the outcomes being fed back to the Chairman by the senior independent non-executive Director for discussion and action as appropriate.

At the beginning of the year, each executive Director was set challenging performance objectives, progress against which was then reviewed as the year progressed. All the executive Directors take part in the Group's performance management programme under which they each receive detailed feedback from their colleagues. This, together with a review of progress against agreed goals and objectives, is used to assess performance and to set clear objectives and developmental plans for the following year which are closely aligned with the Group's strategic priorities and values. The Group Chief Executive met with each of the other two executive Directors to discuss and review their performance against objectives. The performance evaluation of the Group Chief Executive was conducted by the Chairman, taking account of the output from the Group's performance management programme together with feedback provided by the other non-executive Directors at a private meeting held to discuss this and any other matters which the non-executive Directors wished to raise.

Board Committees

The Board has established a number of Committees, each with its own delegated authority defined in terms of reference. These terms are reviewed periodically and the Board receives reports and copies of minutes of Committee meetings. The Board appoints the members of all principal Board Committees, having received the recommendations of the Nominations Committee.

Principal committees

The principal committees are the Nominations, Audit and Remuneration Committees. Details of the Nominations and Audit Committees, including brief descriptions of their terms of reference (full details of which are available for inspection by shareholders at the Annual General Meeting and on the Group's website) and duties, together with a summary of significant events which have taken place during the year, can be found on pages 56 to 59 and should be read as part of the Directors' report. Details of the Remuneration Committee and its activities are contained within the Remuneration report on pages 60 to 72.

Board meeting attendance 2013

Seven principal Board meetings were held during 2013. Details of attendance are set out below:

Sean Watson	7 of 7
Geraint Anderson	7 of 7
Shatish Dasani	7 of 7
Tim Roberts	7 of 7
Michael Baunton	7 of 7
Stephen King	7 of 7
John Shakeshaft	7 of 7

Additional meetings of the Board and its principal Committees take place as and when required throughout the year. During 2013 there were four such meetings. By necessity, these meetings are often convened at shorter notice than would be the case for principal meetings, however all these meetings were fully attended.

Beyond the principal Board meetings, the Board held two strategy meetings during the year, both of which were fully attended.

Directors' attendance at meetings of the principal Committees on which they serve are detailed in the Nominations, Audit and Remuneration Committee reports on pages 56, 57 and 60.

Other Committees

Corporate Governance Committee

The Corporate Governance Committee is responsible for monitoring the Group's compliance with good corporate governance. During the year it was chaired by the Chairman and included an independent non-executive Director, the Group Finance Director, the Group Business Development Director and the Group General Counsel & Company Secretary. The Committee's duties are as follows: to review regularly the corporate governance procedures of the Company to ensure that they are up-to-date and effective, and are communicated to those employees, officers and/or Directors of the Company or its subsidiaries to whom they are relevant; to make recommendations to the Board from time to time on any procedures, or processes, that may need changing, in order to ensure that the Company is compliant with relevant legislation, including but not limited to, the Companies Act 2006; to ensure that the Company is compliant with the standards and disclosures required by the Code and the Listing, Prospectus and Disclosure and Transparency Rules of the UK Listing Authority; and to receive reports, or any views expressed by shareholders, stakeholders, government or other regulatory bodies and any other interested parties in relation to corporate governance.

The Committee met twice during 2013, during which time it agreed to continue with the annual re-election for all Directors implemented with effect from the Annual General Meeting held in 2013, notwithstanding the fact that this provision only applies to companies within the FTSE 350. The reports and AGM voting recommendations from various investor bodies were also reviewed and suggested areas for improvement noted in relation to audit policy, remuneration policy, diversity and environmental, social and governance matters.

The Committee also considered how recent statutory and regulatory changes would affect the disclosures required in the Annual Report and Accounts and the management measures needed in order to achieve compliance with the new requirements.

Corporate and Social Responsibility Committee

The Corporate and Social Responsibility Committee is chaired by the Group Chief Executive and also comprises one independent non-executive Director and up to three senior executives from within the Group. The Committee met four times during 2013 and has held one meeting to date during 2014. The Board regularly receives reports on its activities.

Further information on the activities of the Corporate and Social Responsibility Committee is given in the Corporate responsibility section on pages 42 to 45.

Corporate governance continued

Risk Committee

The Risk Committee assists the Board and the Audit Committee in fulfilling their responsibilities by: providing a framework for managing risks throughout the Group; monitoring risk appetite and exposure through regular reviews of principal risks; reviewing the effectiveness of risk management processes and controls; and providing an appropriate level of reporting on the status of risk management within the Group.

This is achieved by promoting awareness of risk management and ensuring that a robust risk management framework is in place to enable risks to be identified, quantified, managed, monitored and reported.

During the year the Committee was chaired by the Group Chief Executive and included the Group Finance Director, Group Business Development Director, Group General Counsel & Company Secretary, Group Head of Risk and Assurance, Group Human Resources Director, Group IT Director, Group Marketing Director, Group Purchasing Director and Divisional Chief Executives. The Committee met ten times during 2013 and has held two meetings to date in 2014.

Further information on the Group's risk management activities and framework is given in the Risk management framework and Risk profile section on pages 24 to 27 and in the Review of internal controls below.

Review of internal controls

The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. These systems have been in place for the full financial year. The Group is committed to a policy of maintaining appropriate internal control over all of its activities. Controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are properly authorised, and that material errors and irregularities are prevented or, if controls are failing, are discovered and mitigated on a timely basis. The systems of control are reviewed regularly and improved where necessary to meet the Group's requirements. Business risk evaluation takes place at operating company, divisional and Group levels through regular performance reviews and as part of the annual budget preparation process. Having identified risks, operating companies and divisions then monitor, review and update the associated controls to mitigate the risks appropriately.

Further details of the Group's exposure to risk and processes in place to manage the same are set out on pages 24 to 27.

The risk management procedures and systems of internal control are designed to identify and assess principal risks which the Group faces and to manage them appropriately. However, such systems can only provide reasonable and not absolute protection against material mis-statement or loss.

Principal features of the system of internal control

The Directors meet as a Board at least every other month to monitor financial performance, give direction on significant strategic and financial issues and review the principal risks of the Group.

The Group Chief Executive chairs a Committee ("Operating Board") consisting of the executive Directors, Divisional Chief Executives and other senior management. The Operating Board meets on a monthly basis and reviews the historical performance and the outlook for the Group as a whole and agrees and implements any actions as necessary. In addition, it is responsible for monitoring and driving delivery of the Group's key priorities and acts as a forum to raise and debate significant operational issues. Biographies of Operating Board members are given on page 50.

Each operating company within the Group operates within the policies, rules and procedures determined by the Directors and communicated through an internet based Group Policies hub. The Directors exercise control over operating companies through divisional senior executives who monitor and oversee the activities, financial performance and controls of each operating company and seek to ensure that these companies comply with Group accounting policies in the process for preparation of consolidated financial statements. The directors of operating companies and heads of business units are held accountable for the effectiveness of the implementation and maintenance of controls within their companies. This provides constant and consistent management.

During the year, a comprehensive control framework for key business processes was drawn up by Group-wide project teams and this is currently being implemented. Each business unit will be required to carry out a self-assessment against the control framework and draw up action plans for management. This will form the basis for internal review and audit.

The Group has detailed financial planning and reporting systems. Management accounts are prepared monthly by each operating company comparing actual performance with budget. The financial performance of each operating company is subjected to in-depth formal review at monthly meetings. A key purpose of these reviews is the early identification of potential business risks and agreement on suitable and prompt courses of action. Operating companies prepare strategic plans and annual budgets which are consolidated up to a divisional and Group level and are reviewed and approved by the divisional senior executives, Group management and the Board.

The Group rigorously enforces its comprehensive control and approval procedures which incorporate clear definitions of appropriate authorisation levels. Capital investment and other major items of expenditure are made only after compliance with detailed appraisal procedures and, if above set levels, only with the approval of the executive Directors and the Board.

Accounting and reporting policies and practices require that the Group's accounting records are prepared consistently, accurately and in compliance with Group policy and relevant accounting standards.

The Risk and Assurance department reviews the internal control environment according to the annual internal audit plan agreed with the Audit Committee.

Certain key functions, including treasury, taxation, pensions, provision of legal advice, risk and insurance are controlled at the Group's head office and are monitored by the executive Directors.

The Directors have reviewed the effectiveness of the systems of risk management and internal control during the year to 31 December 2013 and during the period since then to the date of this report. They have made, and will continue to make, improvements where necessary.

Financial risk management objectives and policies are set out under Financial risks on page 27.

Investor relations

The Group Chief Executive and Group Finance Director meet institutional investors immediately after publication of the annual and interim results and on an ongoing basis as required. In 2013, this included investor roadshows held over a total of 13 days in London and Scotland in respect of the annual and interim results, plus a further five days meeting investors and private client fund managers in London, Leeds, Manchester, New York and Boston spread throughout the year. Sean Watson, as Chairman, and John Shakeshaft, as senior independent non-executive Director and Chairman of the Remuneration Committee, also undertake consultation on certain matters with major shareholders from time to time. Through these Directors, the Company maintains a regular dialogue with institutional shareholders and analysts. Feedback is reported to the Board so that all Directors develop an understanding of the views of major shareholders about the Company. Trading updates and press releases are issued as appropriate and the Company's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings. Information offered at the analysts' meetings together with our financial press releases are available on the Group's website. The Annual General Meeting is used by the Directors to communicate with both institutional and private investors.

Going concern

The Directors have reviewed the budgets for 2014 and the projections for 2015 developed during the 2013 annual strategic planning cycle. The Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities, recognising that the main committed facility was re-negotiated during 2012 for a period of five years to August 2017. Based on this, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 12 March 2014 and signed on its behalf by:

Lynton Boardman
Group General Counsel & Company Secretary

Nominations Committee

Membership:

Sean Watson (Chairman)

Michael Baunton

Stephen King

John Shakeshaft

Committee meeting attendance 2013

Sean Watson	2 of 2
Michael Baunton	2 of 2
Stephen King	2 of 2
John Shakeshaft	2 of 2

Remit

The Nominations Committee's remit includes: the structure, size and composition of the Board as a whole; the overall leadership needs of the organisation; consideration of succession planning for Directors and Divisional Chief Executives (having due regard to the length of service of non-executive Directors) and the search for and selection of suitable candidates for the appointment of replacement or additional Directors.

Committee meetings in 2013

During 2013 the Committee held two formal meetings.

The Committee also held a number of meetings during the year to discuss succession planning in respect of a new Group Chief Executive. External consultants conducted a comprehensive search and the Committee scrutinised the shortlist to identify those candidates with the most relevant experience. This resulted in the appointment of Richard Tyson who met with each member of the Committee as part of the selection process. Richard, who has over 20 years' experience in the communications, aerospace and defence industries, together with a successful track record of growing businesses both organically and by acquisition, will join TT Electronics before the end of June 2014. He joins from Cobham plc where he is a member of the Cobham Executive Committee and President of the Aerospace & Security Division (Cobham's largest) which has annual revenues in excess of £700 million and doubled in size between 2008 and 2013 under his leadership.

The Committee has held no formal meetings to date during 2014.

2013 review

The Committee seeks to ensure that the Board of TT Electronics is balanced and effective with diverse skills, knowledge and experience. Diversity and gender inclusiveness span the whole Group and are important and enduring considerations in the search for and selection of Board members.

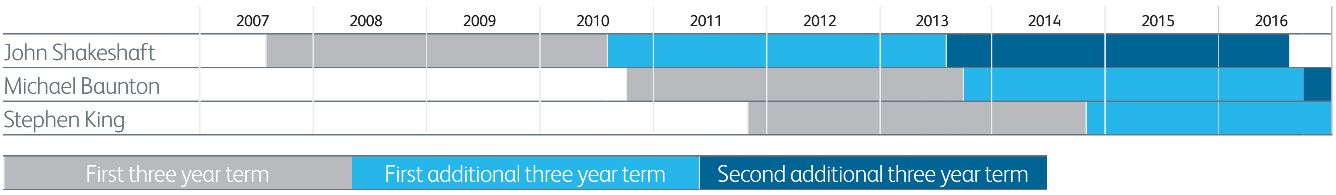
During 2013 the Committee re-considered whether the introduction of diversity quotas or targets was appropriate and reviewed the changes to reporting requirements insofar as they related to diversity. The Committee is rigorous in seeking talent and is focused on ensuring that the Group has the best possible Board available to promote its interests. The Committee engages external search consultants to assist in the specification of Board positions and the selection of prospective candidates to ensure a robust, measurable and orderly process. The Committee believes that this rigorous process has led to the recruitment of talented individuals, significantly enhancing the composition of the Board.

The Committee continues to consider that diversity quotas at Board level are inappropriate and is committed to recruiting the best talent available, based on merit and assessed against objective criteria of skills, knowledge, independence and experience. Its primary objective is to ensure that TT Electronics maintains the strongest possible leadership.

The Board attaches a high degree of importance to diversity at all levels across the Group, although of equal importance is the need to ensure that staff skills and competencies are matched to the strategic and operational needs of the business in its core markets. Details of the number of employees, senior managers and Directors of each gender are given in the Corporate responsibility section on page 43.

During 2013 the Committee considered executive succession planning in light of the significant changes to the composition of the CEO's direct reports (together with those members of management immediately below) which had primarily resulted from the creation of the new Sensing and Control division. This remains an area of focus for the Committee.

Non-executive Directors' lengths of service



Performance evaluation

The Committee carried out an assessment of its performance in 2013 based on a review of its activities during the year against its terms of reference. It was concluded that the Committee had performed satisfactorily and is structured appropriately to provide effective support to the Board. The Committee had continued to be closely involved in the recruitment process for senior positions below Board level, which in turn had enabled greater visibility of potential successors to executive Board positions. The Committee also continued to have improved visibility on the business and the performance of senior management team members as a result of Divisional Chief Executives presenting at Board meetings, site visits undertaken by the Board during the year and non-executive Directors participating in Group events.

Audit Committee

Membership:

Stephen King (Chairman)

Michael Baunton

John Shakeshaft

Committee meeting attendance 2013

Stephen King	4 of 4
Michael Baunton	4 of 4
John Shakeshaft	4 of 4

Remit

The Committee's duties include reviewing and advising the Board on:

- the integrity of the financial statements;
- the appointment and remuneration of external auditors and their effectiveness in line with the requirements of the Code;
- the nature and extent of non-audit services provided by the Auditors to ensure that their independence and objectivity are maintained;
- changes to accounting policies and procedures, decisions of judgement affecting financial reporting, compliance with accounting standards and with the Companies Act 2006;
- internal control and risk management processes, including principal risks and internal control findings highlighted by management or internal and external audit;
- the content of the Auditors' transparency report, concerning Auditor independence in providing both audit and non-audit services;
- the scope, performance and effectiveness of the internal audit and other internal control functions and the Auditors' assessment thereon; and
- the Company's procedures for responding to any allegations made by whistleblowers.

The Code requires that at least one member of the Audit Committee has recent and relevant financial experience. Stephen King fulfils this requirement.

Committee meetings in 2013

During 2013 the Committee held four scheduled meetings.

The Committee met twice with the Group's Auditors, KPMG Audit Plc, without executives of the Company being present. During the year, the Committee also met once with the Group Head of Risk and Assurance (the head of the internal control function) without other executives of the Company being present.

The Committee has held one meeting to date during 2014.

2013 review

In order that the Audit Committee fulfils its duties regarding the integrity of the financial statements and other financial data, the Group Finance Director and the Director of Group Financial Control attend Committee meetings, presenting reports and providing analysis and explanations for queries raised. The external Auditors are also attendees and present reports on their audits. They address such matters as an overview of the financial statements, key accounting judgements, accounting policies, audit differences and internal control matters.

The Group Head of Risk and Assurance also attends meetings to update the Audit Committee on: progress on the internal audit plan; findings and recommendations; and team and methodology improvements. A formal review of the effectiveness of the internal control function is undertaken as part of the year end process. The Committee also regularly receives reports from the Risk Committee to allow members to review principal risks and the effectiveness of risk management processes.

In addition to standing agenda items, during 2013 the Committee also reviewed and considered matters including:

– Inventory costing;

– IT risks, cyber security and IT governance;

– Group anti-bribery training and compliance;

– progress on internal control improvements;

– changes to the finance organisation resulting from the new Sensing and Control operating structure; and

– changes to reporting requirements, including the impact of the new 'Fair, balanced and understandable' reporting requirements on the Company.

Whistleblowing matters reported through the Group's multi-lingual, anonymous Ethics and Integrity portal are reported to, and considered by, the Committee. During the year the Committee received details of three cases, each of which was investigated with appropriate action taken.

Audit Committee continued

The Committee has reviewed and challenged the form and content of the Group's Annual Report and accounts and financial statements for 2013. In conducting its review, the Committee considered reports prepared by management and the external Auditors. These reports covered analyses of the judgements and sources of estimation uncertainty involved in applying the accounting policies as described in note 1(f) to the financial statements. The Committee also considered and challenged the goodwill assumptions and level of provisions held on the balance sheet (as detailed below), as well as the going concern statement on page 85.

Significant issues considered in relation to the financial statements

The main areas of judgement and estimation are set out in the accounting policies on page 85.

The Committee received and reviewed reports from management and the external Auditors setting out the significant issues in relation to the 2013 financial statements which related to:

- provisions;
  - tax
  - product warranty, legal and restructuring
- carrying value of goodwill.

These issues (which are considered in more detail below) were discussed with management during the year and with the external Auditors at the time the Committee reviewed and agreed the external Auditors' Group audit plan; when the external Auditors reviewed the half year results in August 2013; and also at the conclusion of the audit of the financial statements.

Provisions

(i) Tax

Provisions held in respect of tax risks are included within current and deferred tax liabilities depending on the underlying circumstances of the provision. Management confirmed to the Committee that the provisions recorded at 31 December 2013 represent their best estimate of the potential financial exposure faced by the Group.

The Auditor explained to the Committee the work they had conducted during the year, including how their audit procedures were focused on those provisions with the highest level of judgement on recognition criteria and/ or measurement. On the basis of their audit work, the auditor reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole; and in our view this supports the appropriateness of our methodology.

(ii) Product warranty, legal and restructuring

As further explained in note 2(p) to the financial statements, a provision is recognised in the financial statements when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources, that can be reliably measured, will be required to meet the obligation. Provisions are recognised at an amount equal to management's best estimate of the expenditure required to meet the Group's liability taking into account the time value of money, where this is considered material. On legal and contractual exposures, the Committee received periodic reports from the Group General Counsel & Company Secretary outlining the open legal and contractual disputes and best estimate of the expected costs associated with such matters.

Management has confirmed to the Committee that the provisions recorded at 31 December 2013 represent their best estimate of the potential financial exposure faced by the Group. The external Auditors explained to the Committee the work they had conducted during the year, including how their audit procedures were focused on those provisions with the highest level of judgement on recognition criteria and/or measurement. On the basis of their audit work, the Auditors reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole; and in the Committee's view this supports the appropriateness of the Company's methodology.

Further information about the specific categories of provisions held by the Group is set out in note 19.

Carrying value of goodwill

As more fully explained in note 14, the total carrying amount of goodwill at 31 December 2013 is £63.9 million. During the year, management assessed the carrying value of goodwill (including detailed calculations of value in use for those cash generating units whose recoverable amount is not significantly greater than its carrying amount) to ensure the carrying values are supported by forecast future discounted cash flows. No impairment charges were required as a result of the impairment assessment.

The external Auditors explained the results of their review of the estimate of value in use, including their challenge of management's underlying cash flow projections, the key growth assumptions and discount rates. On the basis of their audit work, no impairments that were material in the context of the financial statements as a whole were identified by the Auditors.

Misstatements

Management has confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The external Auditors reported to the Committee the misstatements that they had found in the course of their work and that no material amounts remain unadjusted. The Committee confirms that it is satisfied that the external Auditors have fulfilled their responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from management and consulting where necessary with the Auditors, the Audit Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect of the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

Future IFRS and UK GAAP developments

The Committee has received a report from management and discussed future accounting developments likely to affect the presentation of the Group's financial statements.

Fair, balanced and understandable

Following implementation of the 2012 UK Corporate Governance Code, the Board requested that the Committee advise them on whether it believed that the Group's 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 strategic plan. On careful review of the Annual Report for the year ended 31 December 2013 and the basis for the statement made by the Board on "Fair, balanced and understandable" on page 76, the Audit Committee recommended to the Board that, taken as a whole, the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategic plan.

Auditors' independence, objectivity and effectiveness

The independence of the Auditors is assessed annually by the Audit Committee in order to ensure that suitable policies and procedures are in place to safeguard the Auditors' independence and objectivity, having regard to length of tenure, provision of non-audit services and the existence of any conflicts of interest. KPMG Audit Plc were appointed in July 2010, at which time their independence had been considered. At the time of the latest annual assessment, the provision of non-audit services was reviewed, together with KPMG Audit Plc's Transparency Report, and KPMG Audit Plc confirmed that no conflicts of interest existed of which the Audit Committee should be aware.

The Committee has formally reviewed the independence of the Auditors as part of the 2013 review. KPMG Audit Plc have provided a letter to the Committee confirming that they remain independent within the meaning of the regulations on this matter and in accordance with their professional standards.

The Committee also reviewed the effectiveness of the Auditors during the year. The use of an evaluation questionnaire, an auditor assessment survey (completed by heads of finance across the Group's operations), together with information provided by the Auditors, assisted in ensuring that a comprehensive assessment was undertaken. Areas for improvement were identified and communicated to the Auditors for action.

The Audit Committee has recommended to the Board that KPMG Audit Plc continue in office as Auditors.

Policy on non-audit services

The Company has an established policy regarding the provision of non-audit services by external auditors. This states that non-audit services may be obtained from the most appropriate source having regard to expertise, availability, knowledge and cost. Non-audit services where fees are expected to exceed £25,000 should be approved, in advance, by the Chairman of the Audit Committee or in his absence by another member of the Audit Committee. There is also a restriction such that fees for non-audit services will not exceed those for audit services, paid to the same service provider for more than two consecutive years, unless specifically recommended by the Audit Committee and agreed by the Board. The overriding preference of the Committee is not to engage the Auditors for additional non-assurance services, unless there are compelling reasons to the contrary, such as capability, time or cost.

In 2013, audit service fees paid to KPMG Audit Plc were £0.8 million, whilst non-audit service fees paid to KPMG totalled £0.3 million. Of this £0.3 million: £0.1 million related to minor projects which were beneath the £25,000 approval threshold detailed above. The remaining £0.2 million of non-audit service fees paid to KPMG during the year comprised fees principally relating to the provision of taxation services, including taxation compliance advice.

During 2013, the Committee reviewed the Company's proportionate spend on audit services, relative to non-audit services, against that of peer group companies. Having reviewed the outcome of this exercise, the Committee is comfortable that the level of spend on non-audit services is reasonable, with non-audit fees paid by the Company in 2013 representing 38 per cent of audit fees, compared to the benchmarked average of 56 per cent.

Performance evaluation

The Committee carried out an assessment of its performance in 2013 based on a review of its activities during the year against its terms of reference. It was concluded that the Committee had performed effectively and is structured appropriately to provide effective support to the Board. Areas for development which emerged from the performance assessment were identified and appropriate focus will be given to these during the forthcoming year.

Directors' remuneration report

Membership:

John Shakeshaft (Chairman)

Michael Baunton

Sean Watson

Committee meeting attendance 2013

John Shakeshaft	4 of 5
Michael Baunton	5 of 5
Sean Watson	5 of 5

Remuneration Committee Report

Committee meeting attendance 2013

During 2013 the Committee held five scheduled meetings.

One additional meeting of the Committee took place during the year and this was fully attended. The Committee has held two meetings to date during 2014.

The Group Chief Executive and the Group Human Resources Director also attend Committee meetings and provide internal support and advice on market and regulatory developments in remuneration practice and employee share plans. Their attendance ensures that the Committee is kept fully abreast of general pay policies throughout the Group which it then takes into account when determining the remuneration of executive Directors and our most senior executives. No individual is allowed to participate in any matter concerning the details of their own remuneration.

Annual statement

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to introduce our Directors' remuneration report for the year ended 31 December 2013.

The Committee strives to demonstrate and operate best practice with regard to both disclosure and executive remuneration strategy. Consistent with the UK Government's reforms on Directors' pay published during 2013 by the Department for Business, Innovation and Skills, we trust that this report demonstrates our commitment to transparency and clarity in disclosure. This report has been divided into three sections:

- This Annual statement which summarises and explains the major decisions and changes in respect of Directors' remuneration;
- A Directors' remuneration policy which sets out the remuneration policy for the Company's Directors which will take effect upon approval by shareholders from the 2014 AGM; and
- An Annual report on remuneration which provides details of the remuneration earned by the Company's Directors in relation to the year ended 31 December 2013.

The Directors' remuneration policy will be subject to a binding shareholder vote and the Annual report on remuneration will be subject to an advisory shareholder vote at the Annual General Meeting on 9 May 2014. The Directors' remuneration policy will be subject to a binding vote every three years (sooner if changes are made to the policy) and the Annual report on remuneration to an annual advisory vote.

Performance evaluation

The Committee assessed its performance, constitution and terms of reference during 2013 based on a questionnaire completed by members. The Committee was deemed to have performed satisfactorily.

Emphasis in 2013

The Committee's main activities during 2013 included the:

- annual review of base salary levels for executive Directors;
- assessment of annual bonus levels for executive Directors for 2012, payable in 2013;
- review of the cash targets for bonus arrangements for 2013;
- evaluation of targets for the 2014 executive Directors' annual bonus plan;
- review of total remuneration levels for executive Directors and the next level of senior executives;
- review of the linkage between risk and reward in relation to remuneration structure;
- review of non-executive Chairman's fees;
- vesting of 2010 grant under the LTIP;
- 2013 grant under the LTIP (including a review of performance targets);
- review of the LTIP structure and the current dilution position;
- review of the Committee's external advisers;
- issuance of performance based awards under our Restricted Share Plan (RSP) to key individuals below executive Directors. Awards were based on profit, revenue and ROCE measures;
- consideration of Economic Value Added proposals;
- evaluation of proposed BIS reporting regulations on Directors' pay; and
- review of replacement LTIP.

The year ended 31 December 2013 has been a challenging year in a number of our markets. Despite the challenges, we have managed to increase revenue, profit and earnings per share during the period. Reflecting this, the 2013 annual bonus paid out at 53.4 per cent of maximum and the 2011 LTIP is expected to vest in 2014 at 39.6 per cent of the maximum.

Remuneration policy for 2014

The Remuneration Committee continually reviews the senior executive remuneration policy to ensure it promotes the attraction, motivation and retention of high quality executives who are key to delivering the Company's strategy and who will be key to delivering sustainable earnings growth and shareholder return.

The Committee's most recent conclusions are that the existing senior executive remuneration policy is appropriate and should continue to operate for 2014 without major changes. The Committee concluded that:

- basic salary levels remain appropriately positioned in the market. Increases for executive Directors for 2014 were therefore limited to 2.8 per cent;
- the structure and quantum of the annual bonus continues to be appropriate; and
- the long-term incentive grant policy, where awards are granted annually based on earnings per share, relative total shareholder return performance conditions and continued service, aligns the senior executive team with shareholders. This alignment is strengthened by the operation of share ownership guidelines.
- while the long-term incentive policy remains unchanged, as a result of the current LTIP reaching the end of its ten year life, a replacement plan, based on similar terms, will be taken to the 2014 AGM for shareholder approval.

In conclusion, the Committee believes that the remuneration policy continues to incentivise the delivery of strong and sustainable financial results and the creation of shareholder value.

John Shakeshaft
Chairman of the Remuneration Committee

12 March 2014

Directors' remuneration policy

In formulating the remuneration policy, full consideration has been given to the principles set out in the UK Corporate Governance Code. The Committee regularly reviews the policy to ensure it takes account of best practice and the particular circumstances of the Company. Consistent with the new legislation, the Directors' remuneration policy will be put to a binding shareholder vote at the forthcoming Annual General Meeting.

Policy overview

The Group is committed to the objective of maximising shareholder return in the longer term and ensuring that a strong link is maintained between performance and reward. The remuneration policy aims to be competitive, performance based, aligned with shareholder interests and relatively simple and transparent.

The Committee aims to approve base salaries, commensurate with experience, around market levels coupled with highly competitive total rewards, linked to performance and aligned with shareholder interests. Remuneration packages must meet the objectives of attracting, retaining and motivating executives of the highest quality in a challenging business environment. In recommending a mix of fixed and variable remuneration, the Committee is mindful of avoiding excessive risks in the pursuit of performance metrics.

Following a review of the current total remuneration policy for executive Directors and senior managers, the Committee concluded that the following principles remain appropriate for 2014.

Competitive: Through a combination of base salaries and competitive performance-related incentive mechanisms, the Group aims to provide individuals with competitive total remuneration in return for superior performance. Base salaries are designed to reflect the requirements of the role and responsibility, together with the overall level of individual performance. In ascertaining appropriate salary adjustments, account is also taken of prevailing market and economic conditions together with salary levels across the Group.

Performance related: The majority of the executive Directors' and senior business unit leaders' remuneration packages are determined based on the performance of the Group. A significant proportion of this is aligned with shareholder interests, based on earnings growth "EPS" and total shareholder return "TSR". Failure to reach set performance thresholds leads to no payout under the Group's annual bonus or long-term incentive arrangements. In order to provide further alignment with the achievement of strategic objectives and delivery of value to shareholders, executive Directors have agreed to maintain a minimum holding of the Group's shares equal to 100 per cent of their base salary.

Transparency: In order to engender a fair and collaborative culture, total remuneration frameworks are clear and openly communicated.

Components of total remuneration

Executive Directors' total remuneration packages comprised:

- Fixed pay, including base salary, pension contribution, car or car allowance, private medical insurance, life assurance; and
- Variable pay, comprising annual bonus opportunity, participation in a share based Long Term Incentive Plan and participation in an all employee share scheme.

Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received in connection with the Annual General Meeting each year at a meeting immediately following the AGM and at other times during the year. This feedback is considered as part of the Company's annual review of remuneration policy. In addition, the Remuneration Committee engages directly with major shareholders and their representative bodies should any material changes be proposed to the remuneration policy. Major shareholders were consulted at the start of 2014 in respect of the replacement LTIP. Details of votes cast for and against the resolution to approve last year's Remuneration report and any matters discussed with shareholders during the year are set out in the Annual report on remuneration.

Consideration of employment conditions elsewhere in the Group

The Committee considers the general basic salary increase for the broader employee population when determining the annual salary increases and remuneration for the executive Directors. Employees have not been consulted on the design of the Company's senior executive remuneration policy although the Committee will keep this under review.

Summary remuneration policy

The table below summarises the Directors' remuneration policy for 2014:

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
Salary	• Reflects the value of the individual and their role • Reflects skills and experience over time • Provides an appropriate level of basic fixed income • Avoids excessive risk arising from over reliance on variable income	• Reviewed annually, effective 1 January • Takes periodic account of practices of companies with similar characteristics and sector comparators	• There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of a role • Current base salary levels are set out on page 66	• Not applicable
Benefits	• To aid retention and recruitment	• Company car allowance, the provision of private medical insurance, life assurance and critical illness cover	• Not applicable	• Not applicable
Bonus	• Incentivises annual delivery of financial and strategic goals • Maximum bonus only payable for achieving demanding targets	• Paid in cash • Not pensionable	• 100 per cent of salary	• A combination of growth in Group profit before tax and other financial metrics (majority weighting), and personal objectives (minority weighting) • Clawback provisions apply
Long Term Incentive Plan	• Aligned to main strategic objectives of delivering sustainable profit growth and shareholder return	• Annual grant of nil cost options or performance shares which normally vest after three years, subject to continued service and performance targets	• 100 per cent of salary (normal limit) • Discretion to provide awards up to 200 per cent of salary in exceptional circumstances such as recruitment or retention • Divided equivalents may also be payable	• LTIP performance measured over three years based on financial (e.g. EPS) and/ or share price measures (e.g. relative TSR) • Clawback provisions apply
SAYE	• To encourage employee share ownership and therefore increase alignment with shareholders	• All employee saving and share purchase plan approved by HMRC • Executives are also eligible to participate in the Group SAYE on the same terms as other employees	• In line with prevailing HMRC limits	• Not applicable
Share Ownership Guidelines	• To provide alignment between executives and shareholders	• Executive Directors are required to build and maintain a shareholding equivalent to one year's base salary	• Not applicable	• Not applicable
Pension	• Provides modest retirement benefits • Opportunity for executives to contribute to their own retirement plan	• Defined contribution/ salary supplement	• Company contributes approximately 15 per cent of salary • Executives salary exchange on same terms as other employees	• Not applicable
Non-executive Director Fees	• Reflects time commitments and responsibilities of each role • Reflects fees paid by similarly sized companies	• Cash fee paid • Fees are reviewed on an annual basis	• Fee increases for Non-executive Directors will not normally exceed the average salary increase awarded to executive Directors, although increases may be above this level if there is an increase in the time commitment and/or responsibility level	• Not applicable. Non-executive Directors do not participate in variable pay arrangements

Directors' remuneration policy continued

Notes:

(1) A description of how the Company intends to implement the policy set out in this table for 2014 is set out in the Annual report on remuneration on page 66.

(2) The following differences exist between the Company's policy for the remuneration of executive Directors as set out above and its approach to the payment of employees generally:

- A lower level of maximum annual bonus opportunity may apply to employees other than the executive Directors and certain senior executives.
- Benefits offered to other employees generally comprise life assurance, pension, and other benefits applicable in the global territories in which the Company operates.
- UK employees participate in the same arrangements as the Directors.
- Participation in the LTIP is limited to the executive Directors and certain selected senior managers. Other employees are eligible to participate in the Company's share option schemes, details of which are provided on page 116.

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

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

(4) The TSR and EPS performance conditions applicable to the LTIP (further details of which are provided on page 66) were selected by the Remuneration Committee on the basis that they reward the delivery of long-term returns to shareholders and the Group's financial growth and are consistent with the Company's objective of delivering superior levels of long-term value to shareholders. The TSR performance condition is monitored on the Committee's behalf by New Bridge Street ("NBS") whilst the Group's EPS growth is derived from the audited financial statements.

(5) The Committee operates the LTIP in accordance with the plan rules and the Listing Rules, and the Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of the plan.

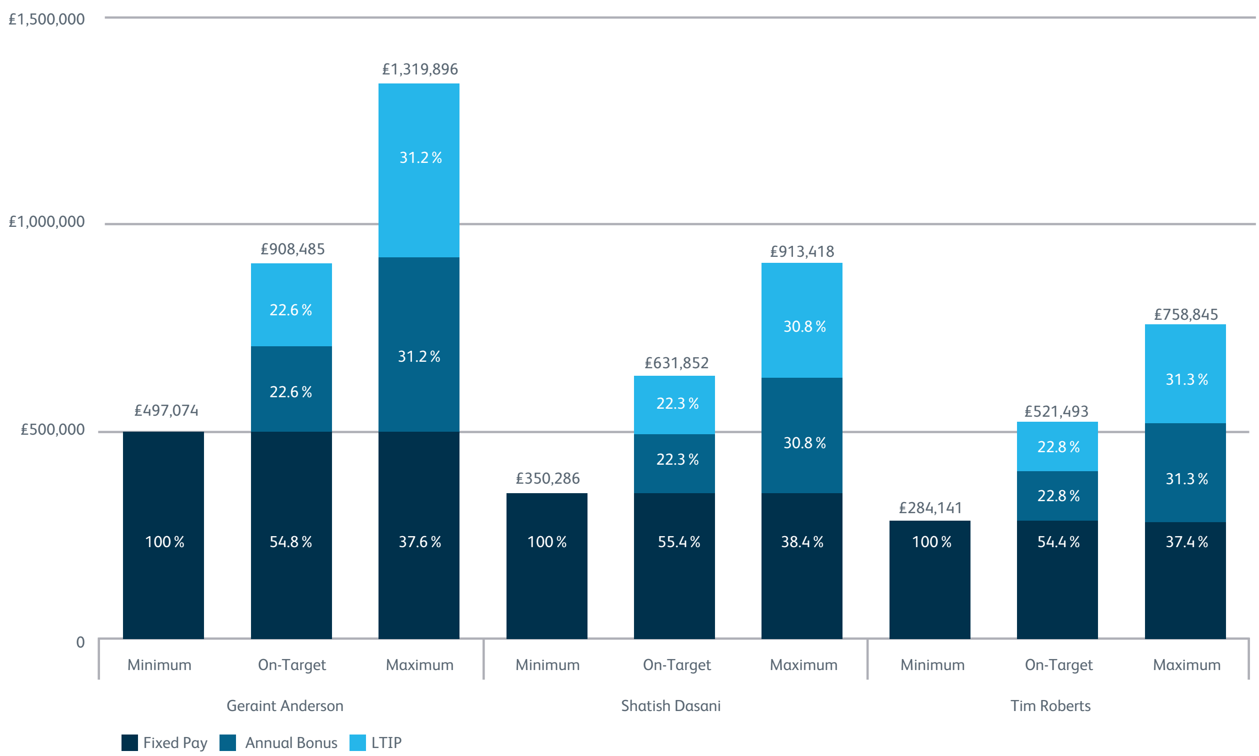
(6) All-employee share plans do not operate performance conditions. Executive Directors are eligible to participate in the Group SAYE on the same terms as other employees.

(7) As highlighted above, the Company has a share ownership policy which requires the executive Directors to build up and maintain a target holding equal to 100 per cent of base salary. Details of the extent to which the executive Directors had complied with this policy as at 31 December 2013 are set out on page 70.

(8) For the avoidance of doubt, in approving this Directors' remuneration policy, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the payment of a pension or the vesting/exercise of past share awards) that have been disclosed in previous remuneration reports. Details of any payments to former Directors will be set out in the Annual report on remuneration as they arise.

Illustrations of application of remuneration policy

The chart below illustrates how the composition of the executive Directors' remuneration packages varies at different levels of performance under the 2014 policy, both as a percentage of total remuneration opportunity and as a total value:



Notes:

(1) The base salary is at 1 January 2014.

(2) The value of benefits receivable under these scenarios is taken to be the value of benefits received in 2013 (as calculated under the Single Total Figure of Remuneration, set out on page 67).

(3) The on-target level of bonus is taken to be 50 per cent of the maximum bonus opportunity (100 per cent of salary for all executive Directors).

(4) The on-target level of vesting under the LTIP is taken to be 50 per cent (being half of the maximum vesting) of the face value of the award at grant.

(5) The maximum value of the LTIP is taken to be 100 per cent of the face value of the award at grant i.e. the values above do not incorporate any share price appreciation assumption.

Approach to recruitment and promotions

The remuneration package for a new executive Director – basic salary, benefits, pension, annual bonus and long-term incentive awards – would be set in accordance with the terms of the Company's prevailing approved remuneration policy at the time of appointment.

Salary would be provided at such a level as is required to attract the most appropriate candidate and may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance have been proven and sustained. Annual bonus potential will be limited to 100 per cent of salary and long-term incentives will be limited to 100 per cent of salary, up to 200 per cent in exceptional circumstances. In addition, the Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company (and therefore shareholders) to take account of remuneration relinquished when leaving a former employer and would reflect the nature, time horizons and performance requirements attaching to that remuneration. Shareholders will be informed of any such payments at the time of appointment.

For an internal executive Director appointment, any variable pay element awarded in respect of their prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the next general meeting of shareholders.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate. If appropriate, on the recruitment of a new executive, the Committee may agree to an initial notice period in excess of 12 months, reducing to 12 months over a specified period.

Service contracts for executive Directors

The service agreements of the executive Directors are not fixed term and are terminable by either side on 12 months' notice. They include 12 month non-compete clauses and standard provisions for summary termination. These contracts make provision, at the Board's discretion, for early termination by way of payment in lieu of 12 months' notice. In calculating the amount payable to a Director on termination of employment, the Board would take into account the commercial interests of the Company and apply usual common law and contractual principles. The Remuneration Committee reviews the contractual terms for new executive Directors to ensure these reflect best practice. In summary, the contractual provisions are:

Provision	Detailed Terms
Notice period	12 months
Termination payment	Common law and contractual principles apply
Remuneration entitlements	A bonus may be payable (pro-rated where relevant) and outstanding share awards may vest (see below)
Change of control	No executive Director's contract contains additional provisions in respect of change of control

The annual bonus may be payable with respect to the period of the financial year served although it will be pro-rated and paid at the normal pay-out date.

Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. The default treatment under the LTIP is that any outstanding awards lapse on cessation of employment. However, in certain circumstances, such as death, disability, redundancy, retirement, sale or transfer of employer or other circumstances at the discretion of the Committee, 'good leaver' status may be applied. For good leavers, awards will normally vest on the normal vesting date, subject to the satisfaction of the relevant performance conditions, and reduced pro-rata to reflect the proportion of the vesting period actually served. However, the Remuneration Committee has discretion to determine that awards vest at cessation (e.g. death) and/or to disapply time pro-rating.

The executive Directors may accept outside appointments, with prior Board approval, provided these opportunities do not negatively impact on the individual's ability to perform his duties at the Company. Whether any related fees are retained by the individual or are remitted to the Company will be considered on a case by case basis.

Non-executive Directors

The fees of each of the non-executive Directors is determined by the Chairman and the executive Directors, reflecting the time commitment required, the responsibility of each role and the fees paid in comparable companies.

Annual report on remuneration

Implementation of the remuneration policy for the year ending 31 December 2014

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2014 is set out below.

Basic salary and benefits (audited)

The Remuneration Committee agreed to increase executive Director base salary levels by 2.8 per cent with effect from 1 January 2014. Current base salary levels and those which applied during the year ended 31 December 2013 are as follows:

	2014	2013	% increase
Geraint Anderson	**£411,411**	£400,171	2.8%
Shatish Dasani	**£281,566**	£274,030	2.8%
Tim Roberts	**£237,352**	£231,000[1]	2.8%

1. Corresponding figure for Tim Roberts in 2013 was shown post salary sacrifice

The Group's employees, in general, are receiving pay rises ranging from 2.8 per cent to 9 per cent depending on promotional increases and individual performance.

Pension arrangements

The Company contributes approximately 15 per cent of salary either to a defined contribution arrangement or as a salary supplement for each executive Director.

Annual bonus

The maximum bonus potential for the year ending 31 December 2014 will remain at 100 per cent of salary for all executive Directors and the split of targets continues to be based on the Group's financial results, being growth in Group profit before tax (up to 50 per cent of maximum), Group operating cash flow (up to 12.5 per cent of maximum), Group average working capital (up to 12.5 per cent of maximum) and specific personal objectives (up to 25 per cent of maximum) as set at the beginning of the 2014 financial year. Specific targets relating to these objectives are considered commercially sensitive for the 2014 financial year and will be disclosed retrospectively in next year's Annual Report.

Long-Term Incentives

Consistent with past awards, the extent to which LTIP awards which will be granted in 2014 will vest will be dependent on two independent performance conditions with 50 per cent determined by reference to the Company's Total Shareholder Return ("TSR") and 50 per cent determined by reference to the Group's earnings per share ("EPS"), as follows:

- the TSR element of an award will vest in full if the TSR ranks in the upper quartile, as measured over the three year period, relative to the constituents of the FTSE SmallCap Index excluding investment trusts at the beginning of that period. This element of the award is reduced to 25 per cent on a pro rata basis for median performance and is reduced to nil for below median performance; and
- the EPS element of an award will vest in full if EPS growth exceeds inflation, as measured by the Retail Prices Index, by an average of 12 per cent per annum or more over the three year period. This element of the award is reduced to 25 per cent on a pro rata basis if EPS growth exceeds inflation by an average of 7 per cent per annum over the period and is reduced to nil if EPS growth is below this level.

Non-executive Directors (audited)

The Company's approach to non-executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the Chairmanship of Board Committees. A summary of current fees is as follows:

	2014	2013	% increase
Chairman	**£151,870**	£147,805	2.8%
Base fee	**£41,100**	£40,000	2.8%
Additional fees:			
Audit Committee Chair fee	**£7,000**	£7,000	0%
Remuneration Committee Chair fee	**£7,000**	£7,000	0%

Implementation of the remuneration policy for the year ended 31 December 2013

Remuneration received by Directors (audited)

Directors' remuneration for the year ended 31 December 2013 was as follows:

£'000		Salary/fees	Benefits[1]	Pension[2]	Bonus[3]	Incentives[4]	Total
Executive Directors							
Geraint Anderson	**2013**	**400**	**24**	**60**	**213**	**457**	**1,154**
	2012	389	25	58	194	1,018	1,684
Shatish Dasani	**2013**	**274**	**25**	**42**	**146**	**313**	**800**
	2012	266	26	41	133	698	1,164
Tim Roberts	**2013**	**231**	**11**	**35**	**123**	**192**	**592**
	2012	210	11	32	105	273	631
Chairman							
Sean Watson	**2013**	**148**	**–**	**–**	**–**	**–**	**148**
	2012	144	–	–	–	–	144
Non-executive Directors							
Michael Baunton	**2013**	**40**	**–**	**–**	**–**	**–**	**40**
	2012	39	–	–	–	–	39
Stephen King	**2013**	**47**	**–**	**–**	**–**	**–**	**47**
	2012	43	–	–	–	–	43
John Shakeshaft	**2013**	**47**	**–**	**–**	**–**	**–**	**47**
	2012	46	–	–	–	–	46
David Crowther	**2013**	**0**	**–**	**–**	**–**	**–**	**0**
	2012	16	–	–	–	–	16

1. Taxable benefits

The Directors taxable benefits consist of company car or allowance and private medical cover.

2. Pensions

Employer contributions are paid at approximately 15 per cent of Base Salary. Geraint Anderson and Shatish Dasani receive a pension supplement in lieu of a contribution to the pension scheme.

3. Annual bonus payments for 2013

The annual bonus payments presented in the table below were based on performance against increase in Group profit before tax (up to 50% of maximum), Group operating cash flow (up to 25% of maximum), and specific personal objectives (up to 25% of maximum) as measured over the 2013 financial year.

Details of actual performance against targets is as follows:

	Potential	Required for threshold bonus (£m)	Required for Maximum bonus (£m)	Actual Result £m	Actual payout (% of salary)
Group profit	50%	29.4	34.1	30.2	14.6%
Group underlying operating cash flow [1]	25%	36.5	44.7	41	13.8%
Personal and strategic objectives [2]	25%	Personal and strategic targets set at the start of 2013 based on the delivery of growth, return on capital, strategy development, senior team development, the delivery of margin improvement programmes and health and safety		See [2]	25%
Total % of salary	100%				53.4%

[1] Excluding amortisation of intangible assets.

[2] Following an assessment of the personal objectives at the end of 2013, the Remuneration Committee concluded that all of the targets which had been set at the start of the financial year and which remained relevant had been met in full.

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Annual report on remuneration continued

4. Vesting of LTIP awards

The figures included in the incentives figure show the value of awards in the year where the achievement of the performance condition is known. It therefore includes the shares vested on achievement of the TSR condition that vested during the year and the shares to vest on achievement of the EPS condition as at the financial year end.

Metric	Threshold target	Stretch target	Actual	% vesting
2011 award earnings per share	13.0p	14.7p	14.2p	39.6%
2010 award total shareholder return	12.5% median ranking	50% upper quartile ranking	upper quartile ranking	50%
2010 award earnings per share	12.0p	14.0p	13.7p	44.4%
2009 award total shareholder return	12.5% median ranking	50% upper quartile ranking	upper quartile ranking	50%

The details of the performance criteria are set out in the "LTIP performance criteria" below.

Executive	Year of award and measure	Number of shares at grant	Number of shares vested/to vest	Number of shares lapsed/to lapse	Estimated/value of vesting/ vested shares (£'000)
Geraint Anderson					
	2011 – EPS	108,143	85,692	22,451	169
	2010 – TSR	165,095	165,095	–	288
2013 performance period		**273,238**	**250,787**	**22,451**	**457**
	2010 – EPS	165,095	146,521	18,574	255
	2009 – TSR	437,500	437,500	–	763
2012 performance period		**602,595**	**584,021**	**18,574**	**1,018**
Shatish Dasani					
	2011 – EPS	74,054	58,680	15,374	116
	2010 – TSR	113,208	113,208	–	197
2013 performance period		**187,262**	**171,888**	**15,374**	**313**
	2010 – EPS	113,208	100,472	12,736	175
	2009 – TSR	300,000	300,000	–	523
2012 performance period		**413,208**	**400,472**	**12,736**	**698**
Tim Roberts					
	2011 – EPS	54,071	42,846	11,225	84
	2010 – TSR	61,911	61,911	–	108
2013 performance period		**115,982**	**104,757**	**11,225**	**192**
	2010 – EPS	61,911	54,946	6,965	96
	2009 – TSR	101,334	101,334	–	177
2012 performance period		**163,245**	**156,280**	**6,965**	**273**

The value of vested shares is based on actual share prices at the date of vesting. The estimated value due to vest under the 2011 awards is based on the market value of 197 pence on 31 December 2013.

LTIP performance criteria

In 2013, LTIP allocations equal to 100 per cent of base pay were awarded to executive Directors. The performance measures attaching to the outstanding and recently vested LTIP awards are shown in the table below:

Vesting Criteria	2010	2011	2012	2013
One half on EPS growth in excess of RPI				
Full vesting	= 14 pence	15%	20%	**20%**
Zero vesting if below	= 12 pence	10%	10%	**10%**
	Vesting will increase on a straight line basis between 25% and 100% between the above points			
One half on TSR performance against the FTSE Small Cap (excluding Investment Trusts)				
Full vesting	upper quartile ranking			
Zero vesting if below	median ranking			
	Vesting will increase on a straight line basis between 25% and 100% between the above points			
In addition to the TSR targets, the Committee will consider the Company's underlying performance to ensure that vesting percentages under this part of an award are appropriate.				
Awards are measured over a three year period				

The LTIP awards granted in 2010 vested at 94.4% on 9 May 2013. The market price on date of vesting was £1.74.

Long-term incentives granted during the year

On 17 April 2013, the following LTIP awards were granted to executive Directors

Executive	Basis of award granted	Share price at date of grant[1]	Number of shares over which award was granted	Face value of award £	% of face value that would vest at threshold performance	Vesting determined by performance over
Geraint Anderson	100% of salary	£1.65	242,528	400,171	25%	TSR and EPS: Three financial years to 31 December 2015
Shatish Dasani	100% of salary	£1.65	166,079	274,030	25%	
Tim Roberts	100% of salary	£1.65	140,000	231,000	25%	

[1] the share price used to determine the number of shares to be granted was the closing market price on the day prior to grant (i.e. £1.65).

Outstanding share awards

The table below sets out details of outstanding share awards held by executive Directors.

As at 31 December 2013, Directors' interests under the LTIP were as follows:

	Date of grant	1 January 2013	Granted during the year	Lapsed	Vested	31 December 2013	Market value at 31 December 2013 £	Market price at grant date pence	Vesting date
Geraint Anderson	4 May 2010	330,189		18,573	311,616	–	–	106	4 May 2013
	27 April 2011	216,285				216,285	426,081	175.25	27 April 2014
	25 April 2012	212,885				212,885	419,383	182.5	25 April 2015
	17 April 2013		242,528			242,528	477,780	164.75	17 April 2016
		759,359	242,528	18,573	311,616	671,698	1,323,244		
Shatish Dasani	4 May 2010	226,415		12,736	213,679	–	–	106	4 May 2013
	27 April 2011	148,108				148,108	291,773	175.25	27 April 2014
	25 April 2012	146,027				146,027	287,673	182.5	25 April 2015
	17 April 2013		166,079			166,079	327,176	164.75	17 April 2016
		520,550	166,079	12,736	213,679	460,214	906,622		
Tim Roberts	4 May 2010	123,821		6,965	116,856	–	–	106	4 May 2013
	27 April 2011	108,142				108,142	213,040	175,25	27 April 2014
	25 April 2012	115,068				115,068	226,684	182.5	25 April 2015
	17 April 2013		140,000			140,000	275,800	164.75	17 April 2016
		347,031	140,000	6,965	116,856	363,210	715,524		

(1) The performance conditions for the 2010 awards were met 88.8 per cent satisfied on the EPS target and in full on the TSR target, in total 94.4 per cent of the maximum award. The Company settled the awards with new issue shares in respect of the net balance after tax and national insurance. The market price on the date of vesting was 174 pence.

(2) The targets for the 2011 awards are as set out above under the "Long Term Incentive Plan 2005". Based on these accounts, subject to Committee review, it is anticipated that the awards will vest in part 79.2 per cent in respect of the EPS target. The TSR performance condition will be measured at 26 April 2014.

(3) The market value at 31 December 2013 represents the total number of shares awarded multiplied by 197 pence being the share price on 31 December 2013. The calculation does not take into account the likelihood of vesting.

Annual report on remuneration continued

TT Electronics plc sharesave scheme

	Date of grant	1 January 2013	Granted during the year	Lapsed	Exercised	31 December 2013	Potential gain at 31 December 2013 £	Option price pence	Exercisable between / exercised on
G Anderson	1 Oct 10	13,552	–	–	–	13,552	11,248	114	1 Nov 15 – 30 April 16
		13,552	–	–	–	13,552	11,248		
S D Dasani	1 Oct 10	7,894	–	–	7,894	–	–	114	01 Nov 13
	1 Oct 13	–	6,040	–	–	6,040	2,899	149	01 Nov 16 – 30 April 17
		7,894	6,040	–	7,894	6,040	2,899		
T H Roberts	1 Oct 10	7,894	–	–	7,894	–	–	114	01 Nov 13
	1 Oct 13	–	6,040	–	–	6,040	2,899	149	01 Nov 16 – 30 April 17
		7,894	6,040	–	7,894	6,040	2,899		

(1) The potential gain at 31 December 2013 represents the total number of shares under option multiplied by 197 pence being the share price on 31 December 2013 less the option price. The calculation assumes that the executive Director remains employed and completes the contract.

Payments to past Directors

No payments were made to past executive Directors during the year ended 31 December 2013.

Payments for loss of office

No payments were made in respect of loss of office during the year ended 31 December 2013.

Statement of Directors' shareholdings and share interests (audited)

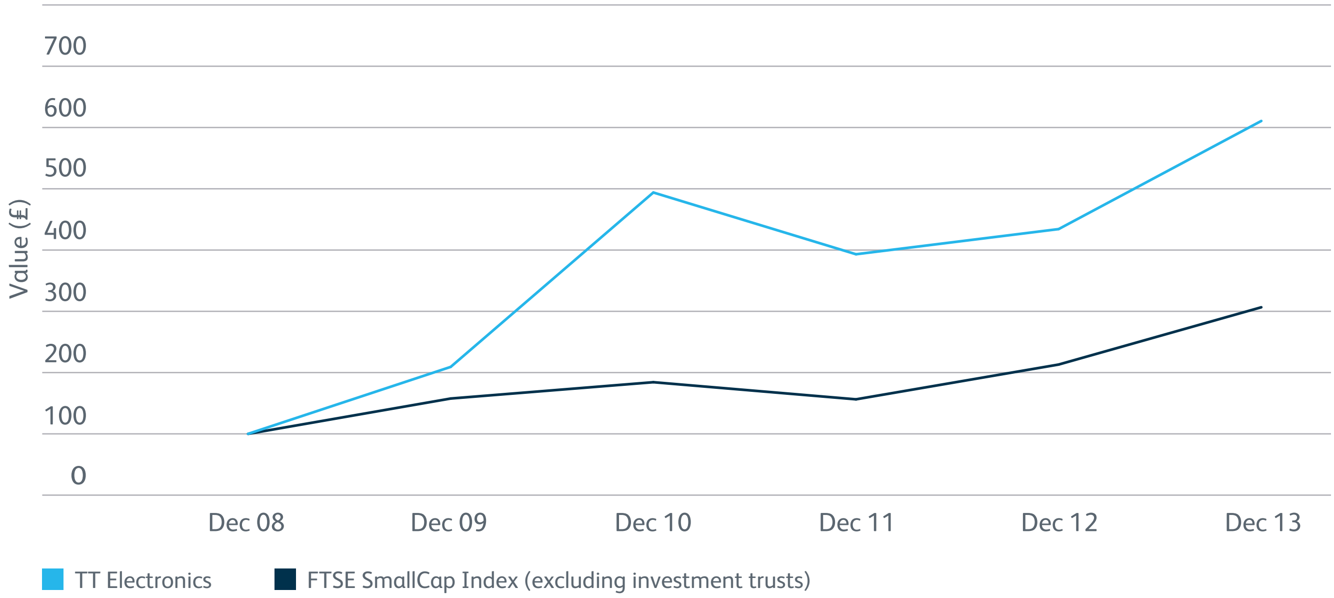
Executive Directors	Beneficially owned at 1 January 2013	Beneficially owned at 31 December 2013	Outstanding LTIP Awards	Outstanding share awards under all employee share plans	Shareholding as a % of salary at 31 December 2013	Value of beneficially owned at 31 December 2013 £000's	Basic salary at 31 December 2013 £
G Anderson	560,000	725,156	671,698	13,552	357%	1,429	400,171
S D Dasani	708,000	829,144	460,214	6,040	596%	1,633	274,030
T H Roberts	130,475	174,303	363,210	6,040	149%	343	231,000
Non-executive Directors							
S M Watson	190,000	190,000	–	–	N/A		
M J Baunton	72,717	72,717	–	–	N/A		
S A King	100,000	100,000	–	–	N/A		
J C Shakeshaft	51,206	51,206	–	–	N/A		

Executives are required to hold shares in the Company worth 100 per cent of salary and must retain 50 per cent of the net of tax value of any vested LTIP shares until the guideline is met. At 31 December 2013, all executive Directors had met the shareholding requirement.

The closing middle market prices for an Ordinary share of 25 pence of the Company on 31 December 2012 and 2013 as derived from the Stock Exchange Daily Official List were 144 pence and 197 pence respectively. During 2013 the middle market price of TT Electronics plc Ordinary shares ranged between 147 pence and 202 pence.

Performance graph and table

The following graph shows the cumulative Total Shareholder Return of the Company over the last five financial years relative to the FTSE SmallCap Index. The FTSE SmallCap Index has been selected for consistency as it is the index against which the Company's Total Shareholder Return is measured for the purposes of the LTIP. In addition, the Company is a constituent of the Index.



This graph shows the value, by 31 December 2013, of £100 invested in TT Electronics plc on 31 December 2008 compared with the value of £100 invested in the FTSE SmallCap Index (excluding investment trusts). The other points plotted are the values at intervening financial year ends.

Total remuneration figures for Chief Executive

The total remuneration figures for the Chief Executive during each of the last five financial years are shown in the table below. Geraint Anderson was in this position for all five years shown. The total remuneration figure includes the annual bonus based on that year's performance and LTIP awards based on three year performance periods ending in the relevant year. The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	2009	2010	2011	2012	2013
Total remuneration (£'000)	516	771	1,576	1,684	**1,154**
Annual bonus (%)	30%	96%	96%	50%	**53%**
LTIP vesting (%)	N/A	0%	100%	94%	**89.6%**

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's total remuneration (excluding the value of any LTIP and pension benefits receivable in the year) between the financial year ending 31 December 2012 and 31 December 2013, compared to that of the average for all eligible employees of the Group.

	% change from 2012 to 2013		
	Salary	Benefits	Annual bonus
Chief Executive	3.0	-4.0	9.8
Average of other employees	3.1	3.0	–

Annual report on remuneration continued

Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends.

	2012	2013	% change
Staff costs (£'m)	143.1	152.3	6.4
Dividends (£'m)	7.3	8.0	9.6

The dividends figures relate to amounts payable in respect of the relevant financial year.

External appointments

The executive Directors are encouraged to pursue outside appointments provided that such appointments do not in any way prejudice their ability to perform their duties. The extent to which any executive Director is allowed to retain any fees payable in respect of such outside appointments, or whether such fees are remitted to the Company, will be assessed on a case-by-case basis.

Consideration by the Directors of matters relating to Directors' remuneration

The Company's approach to the Chairman's and executive Directors' remuneration is determined by the Board on the advice of the Remuneration Committee. The members of the Remuneration Committee (all of whom were independent non-executive Directors) during the year under review were as follows:

- John Shakeshaft (Remuneration Committee Chairman)
- Michael Baunton
- Sean Watson

Biographical information on the Committee members is set out on pages 48 and 49.

External advisors

In order to enable the Committee to make informed decisions on executive remuneration, the Committee retained the services of New Bridge Street ("NBS"), independent external consultants, to advise on senior executive remuneration matters. NBS, which is part of Aon plc, provides no other services to the Company, although another part of the Aon plc provides insurance broking and consultancy services. The Committee is entirely comfortable that the provision of these services does not in any way prejudice NBS' position as independent advisers to the Committee. NBS is a member of the Remuneration Consultants Group and abides by the Remuneration Consultants Group Code of Conduct, which requires its advice to be objective and impartial.

The fees paid to NBS for providing advice in relation to executive remuneration over the financial year under review amounted to £39,355.

Shareholder voting at AGM

The Committee encourages dialogue with shareholders and will endeavour to consult with major shareholders ahead of any significant changes to our remuneration policy.

At the Annual General Meeting held on 9 May 2013, a resolution pertaining to the Directors' remuneration report was passed on a show of hands. Proxy votes cast in respect of this resolutions were as follows:

Number of votes	For (98.2%)	Discretionary	Against	Withheld	Total vote
Remuneration report	109,258,221	188,807	1,139,718	594,465	111,181,211

Other statutory disclosures

Directors' report

This Annual Report includes the Directors' report and the audited financial statements for the year ended 31 December 2013. Certain information required to be disclosed in the Directors' report is provided in other sections of this Annual Report. This includes the overview, the operating and financial reviews, the corporate governance and remuneration reports and specific elements of the financial statements noted below and, accordingly, these are incorporated into the Directors' report by reference.

Strategic report

Details of the Group's activities and future plans are set out in the Strategic report on pages 1 to 45 of this report.

The principal operating subsidiaries are listed on page 126.

Results and dividends

The Group's profit on ordinary activities after taxation was £13.0 million (2012: £22.4 million). The audited financial statements of the Group and the Company are set out on pages 79 to 126. Further details of the Group's activities are set out in the Operating and Financial review on pages 30 to 41.

The Directors are recommending a final dividend of 3.8 pence per share for the year ended 31 December 2013 (2012: 3.5 pence) to be paid on 5 June 2014 to shareholders on the register at 23 May 2014 which, together with the interim dividend of 1.6 pence per share paid on 31 October 2013 (2012: 1.5 pence), makes a total for the year of 5.4 pence (2012: 5.0 pence).

Acquisitions and disposals

Completion of the purchase of the 49 per cent minority interest in the Group's Indian Sensors business, Padmini TT Electronics Private Limited, for a consideration of £8.8 million took place on 1 February 2013. This company has since been renamed TT Electronics Sensing and Control Private Limited.

Directors

Rules for the appointment and replacement of Directors are set out in the Company's Articles of Association. Directors are appointed by the Board on the recommendation of the Nominations Committee. Directors may also be appointed or removed by the Company by ordinary resolution at a general meeting of holders of Ordinary shares. The office of a Director shall be vacated if his resignation is requested by all the other Directors, not being fewer than three in number. Further details of the activities of the Nominations Committee are set out on page 56.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs as a result of a takeover bid except that provisions of the Company's share plans may cause options and awards granted under such schemes to vest on takeover, subject to the satisfaction of any performance conditions. Further details of the executive Directors' service contracts can be found in the Directors' remuneration report on page 65. Copies of the executive Directors' service contracts and letters of appointment of the non-executive Directors are available for inspection by any person at the Company's registered office during normal business hours on any weekday (public holidays excepted) and at the Annual General Meeting from 15 minutes before the start of the AGM until its conclusion.

The Group maintains Directors' and Officers' liability insurance. The Directors of the Company also benefit from a qualifying third party indemnity provision in accordance with Section 234 of the Companies Act 2006 and the Company's Articles of Association. The Company has provided a pension scheme indemnity within the meaning of Section 235 of the Companies Act 2006 to directors of associated companies.

Auditors

In accordance with Section 489 of the Companies Act 2006, KPMG LLP is proposed as statutory auditor of the Company and a resolution for its appointment is to be proposed at the forthcoming Annual General Meeting.

The Auditors' responsibilities are set out on page 78 and should be read in conjunction with those of the Directors as set out at the end of this report.

Annual General Meeting

The Annual General Meeting of the Company will be held on 9 May 2014 at the offices of Hudson Sandler Financial and Corporate Communications at 11.30 am. The Notice of the Company's Annual General Meeting accompanies this document.

Research and development

The Group carries out research and development in order to develop new products and processes and to substantially improve existing products and processes. Further details are given in note 15 to the Consolidated financial statements.

Significant agreements relating to change of control

The Group has a number of borrowing facilities provided by various banking groups. Some of these facility agreements include change of control provisions which, in the event of a change in ownership of the Company, could result in renegotiation or withdrawal of these facilities.

There are a number of other agreements that may be renegotiated upon a change of control of the Company. None is considered to be significant in terms of their potential impact on the business of the Group as a whole.

Other statutory disclosures continued

Greenhouse gas emissions

For the year ended 31 December 2013, the Group's greenhouse gas emissions (detailed below) were calculated via the Group's management accounting system, verified by third party supplier invoicing, using the factors for converting energy usage to carbon dioxide equivalent emissions published by DEFRA in June 2013.

	Carbon dioxide equivalent (tonnes)
Emissions resulting from operations and combustion of fuel*	2,831
Emissions resulting from the purchase of electricity, heat, steam or cooling	35,780
Total	38,611

*These figures represent all material emissions. Greenhouse gases emitted as a result of the manufacturing process are not included within this figure since these represent a negligible proportion (less than 1.25 per cent) of our emissions overall. For ease of calculation, combustion of fuel from vehicles owned or operated by the Group (company cars) has been calculated based on the presumption that all company cars fall within the 'large' category and, as a result, has potentially been overstated.

Intensity ratio

The Group has chosen to adopt emissions per £1 million of revenue as its intensity ratio.

For 2013, emissions were 72.55 tonnes of carbon dioxide equivalent per £1 million of revenue.

Further details are given under Environment on page 44.

Employment

The Group is committed to the fair and equal treatment of all its employees regardless of gender, race, age, religion, disability or sexual orientation. Where existing employees become disabled, the policy of the Group is to provide continuing employment and training wherever practicable. The Group makes significant efforts to ensure that high standards of employee welfare are maintained worldwide in all its operations, irrespective of geography and local market conditions. Together with many other global companies operating in its sector, the Group is a member of the Electronic Industry Citizenship Coalition, a leading industry organisation promoting best practices in corporate responsibility, which is committed to raising standards of employee welfare in all jurisdictions and at all levels of the supply chain for electronic products. Further details on the Group's policies relating to its employees are given on pages 43 to 44.

Political contributions

No political contributions were made by the Group during the year.

Share capital

The Company's issued share capital comprises a single class of share capital which is divided into Ordinary shares of 25 pence each. All issued shares are fully paid. The share capital during the year is shown in note 24 to the consolidated financial statements. The rights and obligations attaching to the Company's Ordinary shares are set out in the Company's Articles of Association, a copy of which can be obtained from Companies House in the United Kingdom or by writing to the Group General Counsel & Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Holders of Ordinary shares are entitled to speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, to appoint corporate representatives and to exercise voting rights. Holders of Ordinary shares may also receive a dividend and on a liquidation may share in the assets of the Company. In addition, holders of Ordinary shares are entitled to receive the Company's Annual Report and Accounts. Subject to meeting certain thresholds, holders of Ordinary shares may require a general meeting of the Company to be held or the proposal of resolutions at Annual General Meetings.

Authority to allot shares and disapply statutory pre-emption rights

The Directors will be seeking to renew their authorities to allot unissued shares and to disapply statutory pre-emption rights at the Annual General Meeting to be held on 9 May 2014.

Purchase of own shares

At the Annual General Meeting held on 9 May 2013, the Company was given authority to purchase up to 15,704,354 of its Ordinary shares until the date of its next AGM. No purchases were made during the year by the Company. The Directors will be seeking a new authority for the Company to purchase its Ordinary shares at the forthcoming Annual General Meeting.

Further details regarding the authority to allot shares and disapply statutory pre-emption rights and the purchase of own shares are set out in the Notice of the Annual General Meeting which accompanies this document and is available to view on the Company's website.

Shares held by the Employee Benefit Trust

The Company has established an employee benefit trust ("EBT"), the trustee of which is Sanne Trust Company Limited, part of Sanne Group. As at 31 December 2013, the trustee held 111,106 shares with a nominal value of £27,776.50 and an aggregate purchase price of £1.46 per share, representing 0.07 per cent of the total issued share capital at that date. These shares will be used to satisfy awards made under the TT Electronics plc Restricted Share Plan ("RSP"), the TT Electronics plc Long Term Incentive Plan ("LTIP") or other employee share schemes. The maximum number of shares held by the EBT during the year was 1,635,383, of which 1,571,740 were used to satisfy awards under the LTIP. The voting rights in relation to these shares are exercisable by the trustee; however, in accordance with investor protection guidelines the trustee abstains from voting. The executive Directors as employees of the Company are potential beneficiaries of shares held by the EBT.

Substantial shareholding notifications

The Company had been notified of the following voting rights attaching to TT Electronics plc shares in accordance with the Disclosure and Transparency Rules at 10 March 2014 and 31 December 2013.

	10 March 2014 Number	%	31 December 2013 Number	%
Lloyds Banking Group	8,390,374	5.3	8,390,374	5.3
Mondrian Investment Partners Limited	7,912,306	5.1	7,912,306	5.1
Hargreave Hale	8,123,465	5.1	8,123,465	5.1
Aberforth Partners LLP	8,188,257	5.1	8,188,257	5.1
Tweedy, Browne Company LLC	7,664,336	4.9	7,664,336	4.9
J W Newman	–	<3.0	6,806,254	4.2
FIL Limited (Fidelity International)	8,064,855	5.0	–	–

So far as has been ascertained, no other person or corporation holds or is beneficially interested in any substantial part of the share capital of the Company.

Voting rights and restrictions on transfer of shares

On a show of hands at a general meeting of the Company, every holder of Ordinary shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every Ordinary share held. Further details regarding voting at the Annual General Meeting can be found in the Notice of the Annual General Meeting which accompanies this document. None of the Ordinary shares carry any special rights with regard to control of the Company. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting. A shareholder can lose his entitlement to vote at a general meeting where that shareholder has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Directors may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Directors may also refuse to register a transfer of a certificated share unless the instrument of transfer: (i) is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Directors accompanied by the certificate for the share to which it relates and/or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; (iii) is in favour of a person who is not a minor, bankrupt or a person in respect of whom an order has been made on the grounds that such person is suffering from a mental disorder or is otherwise incapable of managing their affairs; or (iv) is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Directors may decide to suspend the registration of transfers, for up to 30 days a year, by closing the register of shareholders. The Directors cannot suspend the registration of transfers of any uncertificated shares without obtaining consent from CREST.

There are no other restrictions on the transfer of Ordinary shares in the Company except: certain restrictions may from time to time be imposed by laws and regulations (for example insider trading laws); pursuant to the Company's share dealing code whereby the Directors and certain employees of the Group require approval to deal in the Company's shares; and where a shareholder with at least a 0.25 per cent interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of Ordinary shares or on voting rights.

Articles of Association

The Company's Articles of Association may only be amended by special resolution approved at a general meeting of the shareholders.

UK Corporate Governance Code

The Code is available to view at the website of the Financial Reporting Council, www.frc.org.uk.

Disclosure of information to Auditors

To the best of each Director's knowledge and belief, there is no audit information relevant to the preparation of the Auditors' report of which the Auditors are unaware and each Director has taken all the steps which might be expected to be aware of such relevant information and to establish that the Auditors are also aware of that information.

Approved by the Board on 12 March 2014 and signed on its behalf by:

Lynton Boardman
Group General Counsel & Company Secretary

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and a Directors' report on corporate governance that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Directors' report on pages 1 to 75 include 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.

The coordination and review of Group-wide input into the Annual Report is a key element of the control process upon which the Directors rely and is an exercise which spans a period wider than the timetable for compiling the Annual Report itself. This control process incorporates the controls the Group operates throughout the year to identify key financial and operational issues and includes:

- Strategy meetings, held at least twice a year, at which the entire Board is present, resulting in a clear agreement of the Group's strategy. This includes the identification of the key milestones and the related Key performance indicators to be monitored and measured throughout the period.
- Monthly reviews of business performance conducted by executive management (in consultation with divisional management), supplemented by reports highlighting key issues and analysis of the main variances from budget and prior year.
- Preparation of a detailed budget, reviewed and agreed by management and then the Board, which is used to calibrate strategy implementation and against which actual performance is measured.
- A timetabled process coordinating input from each division, identifying significant market issues and key elements of performance for each business area, and appropriately incorporating them into the structure of the Annual Report.
- The identification of key risks from the risk management process, for inclusion within the Annual Report, ensuring a consistency of approach with regard to the risks and the ongoing review programme.
- A planned Audit Committee sign-off process which incorporates meetings of the Chairman of the Audit Committee with the executive Directors and external Auditors to identify and timetable potential issues of significance to be addressed.
- A timetable for internal distribution and comment on the Annual Report, including those of the members of the Board, the Operating Board, key advisers and external Auditors.

By order of the Board:

Lynton Boardman
Group General Counsel & Company Secretary
12 March 2014

Independent Auditor's report to the members of TT Electronics plc

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of TT Electronics plc for the year ended 31 December 2013 set out on pages 79 to 127. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

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

Carrying value of goodwill (£63.9 million)

Refer to page 58 (Audit Committee report), page 86 (Summary of significant accounting policies note) and page 100 (Financial Statements)

The risk: The carrying value of goodwill is assessed for impairment at least annually. The impairment calculations are based on the discounted projected cash flows of the relevant cash-generating units. There is inherent uncertainty and judgement involved in forecasting and discounting future cash flows. The key assumptions, estimates and judgements on which the impairment calculations are based, which are inherently uncertain, could be inappropriate and the carrying values of goodwill could be overstated as a result.

Our response: Our audit procedures included, among others, testing the principles and mathematical integrity of the Group's discounted cash flow model. We also compared the Group's assumptions to externally derived data as well as our own assessments, and key inputs such as projected economic growth, competition, cost inflation and discount rates. We tested the sensitivity of the impairment calculation to changes in the judgements and assumptions used by the Directors. We also assessed whether the Group's disclosures (see note 14) about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill.

Tax liabilities (included within tax creditor of £10.4 million)

Refer to page 58 (Audit Committee report), page 89 (Summary of significant accounting policies note) and pages 96 (Financial Statements)

The risk: The Group is subject to income taxes in a number of jurisdictions. The level of current tax and deferred tax recognised requires judgements as to the likely outcome of decisions to be made by the tax authorities in the various tax jurisdictions around the world in which the Group operates. There is a risk that the judgements on which the provisions are based do not take into account or do not properly reflect the latest available, reliable information or an appropriate application of relevant tax legislation, and are either under or overstated as a result.

Our response: Using the knowledge and experience of our own tax specialists, both at a Group and component level, we challenged the appropriateness of the Directors' assumptions and estimates in relation to tax assets and liabilities including the range of possible amounts that may be assessed under tax laws, likely settlement based on the latest correspondence with the relevant tax authorities and the complexity of tax legislation. We also assessed whether the Group's tax disclosures are appropriate and in accordance with relevant accounting standards.

Product warranty and legal provisions (£5.4 million)

Refer to page 58 (Audit Committee report), page 89 (Summary of significant accounting policies note) and page 104 (Financial Statements).

The risk: Provisions are held in respect of product warranty and legal claims. Provisions are recorded based on management's best estimate of the Group's ultimate liability to settle an obligation. Like other companies in this sector events that have typically led to claims in the past include product performance and commercial disputes. The level of judgement involved in determining whether the recognition criteria are met and then in calculating the best estimate, coupled with the size of the total provisions balance and the fact movements impact earnings, results in provisions being one of the key judgemental areas that our audit is concentrated on.

Our response: Our audit procedures included amongst others challenging the basis used with reference to the latest available corroborative information, obtaining third party correspondence where available and corroborating the provisions recorded in light of our understanding of the business gained throughout the audit process. We also assessed whether the Group's disclosures about provisions and the movements in the year were appropriate.

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

The materiality for the Group financial statements as a whole was set at £1.4 million. This has been determined with reference to a benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group. Materiality represents 4.75% of Group profit Group profit before tax adjusted as disclosed on the face of the income statement.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.1 million impacting the income statement and £0.2 million for balance sheet reclassifications only, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Independent Auditor's report to the members of TT Electronics plc continued

Audits for Group reporting purposes were performed by component Auditors at the key reporting components in the following countries: UK, Germany, Austria, France, Mexico, Malaysia, Romania, China and Barbados. In addition, specified audit procedures were performed by component Auditors in the USA, India and Japan. These Group procedures covered 99.6% of total Group revenue; 98.6% of Group profit before tax adjusted as disclosed on the face of the income statement; and 97% of total Group assets.

The audits undertaken for Group reporting purposes at the key reporting components of the company were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from £0.012 m to £1.4m.

Detailed audit instructions were sent to all the Auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited the following locations: USA (Dallas), Mexico (Mexicali) and Germany (Werne). Telephone meetings were also held with the Auditors at these locations and the majority of the other locations that were not physically visited.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

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

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

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 55, in relation to going concern;
- the part of the Corporate Governance Statement on pages 51 to 55 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

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

Scope of report and responsibilities
As explained more fully in the Directors' Responsibilities Statement set out on page 76, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Anthony J Sykes (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

15 Canada Square
London, E14 5GL
12 March 2014

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	8	(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	9	(4.5)	(5.9)
Profit from continuing operations	7	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)	11	8.8	10.3
From discontinued operations (p)	11	(0.5)	4.0
		8.3	14.3
EPS attributable to owners of the Company – diluted			
From continuing operations (p)	11	8.7	10.3
From discontinued operations (p)	11	(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	5	**–**	(0.2)
Items that will never be reclassified to the income statement:			
Remeasurement of defined benefit pension schemes	23	**12.9**	(4.3)
Remeasurement of other post-employment benefits		**(0.3)**	–
Tax on remeasurement of defined benefit pension schemes	22	**(3.9)**	(0.4)
Tax on remeasurement of other post-employment benefits	22	**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	13	**88.6**	85.9
Goodwill	14	**63.9**	65.2
Other intangible assets	15	**18.1**	13.2
Deferred tax assets	22	**7.3**	13.1
Total non-current assets		**177.9**	177.4
Current assets			
Inventories	16	**80.0**	68.2
Trade and other receivables	17	**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	20	**3.9**	3.8
Trade and other payables	18	**104.8**	99.9
Income taxes payable		**10.4**	12.5
Provisions	19	**10.0**	10.5
Total current liabilities		**129.1**	126.7
Non-current liabilities			
Borrowings	20	**23.7**	8.6
Deferred tax liability	22	**4.7**	2.4
Pensions	23	**20.5**	36.8
Provisions	19	**0.2**	0.2
Other non-current liabilities	18	**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	24	**39.7**	39.2
Share premium	24	**1.4**	0.7
Share options reserve		**1.2**	1.5
Hedging and translation reserve	26	**17.3**	19.5
Retained earnings	27	**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	13	16.8	15.8
Amortisation of intangible assets	15	4.4	4.6
Impairment of property, plant and equipment and intangible assets	13, 15	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	13	(20.3)	(18.7)
Proceeds from sale of property, plant and equipment and grants received		0.6	0.3
Development expenditure	15	(5.2)	(4.8)
Purchase of other intangibles	15	(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	24	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	25	(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	28	59.1	58.8
Exchange differences	28	(0.8)	(0.7)
Cash and cash equivalents at end of year	28	54.5	59.1
Cash and cash equivalents comprise			
Cash at bank and in hand		54.5	59.1
Bank overdrafts	20	–	–
		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 Basis of preparation

a) 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 set out on pages 79 to 120 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 accounting standards and interpretations becoming effective in the period:

IFRS 13 "Fair value measurement". The Group adopted the new standard on 1 January 2013. The standard constitutes guidance on fair value measurement and disclosure requirements.

Adoption of amendments to existing accounting standards and interpretations becoming effective in the period: IAS 1 (revised) "Presentation of financial statements". The Group adopted the amendment to the standard on 1 January 2013. The amendment relates to changes in disclosure of items of other comprehensive income.

IAS 19 (revised) "Employee benefits". The Group adopted the amendments to the standard on 1 January 2013. See below for more details.

IFRS 7 (revised) "Financial instruments: disclosures". The Group has adopted the amendment to the standard on 1 January 2013. The amendments specify certain minimum disclosure requirements in relation to netting of financial instruments.

"Improvements to IFRSs". The Group adopted the improvements to IFRSs on 1 January 2013.

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.

b) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2013 and the Group's financial performance for the year ended 31 December 2013.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

1 Basis of preparation (continued)

c) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set on pages 4 to 39. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 40 to 41. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group had a net cash balance of £26.9 million at 31 December 2013 (2012: £46.7 million), with available financial headroom of £169.7 million. Given the considerable financial resources available, together with long-term partnerships with a number of key customers and suppliers across different geographic areas and industries, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources and financial headroom to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further details are contained in the Directors' report on page 55.

d) New standards and interpretations not yet adopted

The Group does not consider that any standard, amendment or interpretation issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

e) Change in accounting policies

There have been no changes to accounting policies during the year except for the adoption of new and amended standards and interpretations as disclosed in note 1(a).

f) Significant accounting judgements and estimates

Judgements

Determining many of the amounts included in the consolidated financial statements involves the use of judgements. These judgements are based on management's best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. Other than the key sources of estimation uncertainty shown below, the Directors believe that there were no material transactions or events during the year which required critical judgements in applying the Group's accounting policies.

Estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. In particular, information about significant areas of estimation uncertainty made by the Directors in preparing the consolidated financial statements is shown below:

- Note 9 – Taxation. Accruals for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in current liabilities;
- Note 14 – Impairment of goodwill. The carrying amount of goodwill has been tested for impairment by estimating the value in use of the cash-generating units to which it has been allocated. Note 14 outlines the significant assumptions made in performing the impairment tests;
- Note 15 – Other intangible assets. The recoverability of capitalised development costs is dependent on assessments of the future commercial viability of the relevant products and processes;
- Note 19 – Provisions. The Group makes appropriate provision on a consistent basis for risks of product liability, litigation, restructuring, credit risk and other normal trading exposures with estimates being made regarding the timing of future payments;
- Note 22 – Deferred tax. The recognition of deferred tax assets is dependent on assessments of future taxable income in the relevant countries concerned; and
- Note 23 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions, including future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate. The pension deficit has been calculated using the assumptions set out in note 23.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied across the Group.

a) Goodwill

Goodwill arising on the acquisition of a business, representing the difference between the cost of acquisition and the fair value of the identifiable net assets acquired, is capitalised and is tested annually for impairment. Goodwill is not amortised, and any impairment losses are not subsequently reversed. The net book value of goodwill at the date of transition to IFRS has been treated as deemed cost. On the subsequent disposal or discontinuance of a previously acquired business, the relevant goodwill is dealt with in the Consolidated income statement except for the goodwill already charged to reserves.

Negative goodwill arising on the acquisition of a business is credited to the Consolidated income statement on acquisition.

b) Other intangible assets

Intangible assets acquired as part of a business combination are stated in the balance sheet at their fair value at the date of acquisition less accumulated amortisation.

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. The carrying values of intangible assets are tested for impairment whenever there is an indication that they may be impaired.

Acquired computer software licences for use within the Group are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the implementation of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Capitalised software development expenditure is stated at cost less accumulated amortisation.

The amortisation rates for intangible assets are:

Acquired patents and licences	up to 10 years
Product development costs	5 years
Customer relationships	3 to 8 years
Software	3 to 5 years

Amortisation is charged on a straight-line basis.

With effect from 1 July 2012 the amortisation period for product development costs was changed from 3 years to 5 years, as this more accurately reflects the useful economic lifetime of the underlying products.

c) Foreign currency translation

The functional currency for each entity in the Group is determined with reference to the currency of the primary economic environment in which it operates. Transactions in currencies other than the functional currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange gains and losses on settlement of foreign currency transactions translated at the rate prevailing at the date of the transactions, or the translation of monetary assets and liabilities at period end exchange rates, are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction.

On consolidation, income statements of subsidiaries are translated into sterling, at average rates of exchange. Balance sheet items are translated into sterling at period end exchange rates. Exchange differences on the retranslation are taken to equity. Exchange differences on foreign currency borrowings financing those net investments are also dealt with in equity and are reported in the statement of comprehensive income. All other exchange differences are charged or credited to the income statement in the year in which they arise. On disposal of an overseas subsidiary any cumulative exchange movements relating to that subsidiary held in the translation reserve are transferred to the consolidated income statement.

2 Summary of significant accounting policies (continued)

d) Property, plant and equipment

Initial measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Depreciation

The cost of each item of property, plant and equipment is depreciated over its useful life. Depreciation is charged to the income statement so as to write-off the cost less estimated residual value on a straight-line basis over the estimated useful life of the asset. Depreciation commences on the date the assets are ready for use within the business and the asset carrying values are reviewed for impairment when there is an indication that they may be impaired. Freehold land is not depreciated.

The depreciation rates of assets are as follows

Freehold buildings	2%
Leasehold buildings	2% (or over the period of the lease if less than 50 years)
Plant and equipment	10% to 33 1/3%

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for their intended use are capitalised as part of the cost of the respective asset.

e) Investment property

Property held to earn rental income rather than for the purpose of the Group's principal activities is classified as investment property. Investment property is recorded at cost less accumulated depreciation and any recognised impairment loss. The depreciation policy is consistent with those described for other Group properties. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

f) Leases

Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased items, are capitalised at the commencement of the lease. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. Lease payments are apportioned between the finance charge and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. All other leases are treated as operating leases and the cost is expensed to the income statement as incurred.

g) Government grants

Government grants relating to non-current assets are treated as deferred income and credited to the income statement by equal instalments over the anticipated useful lives of the assets to which the grants relate. Other grants are credited to the income statement over the period of the project to which they relate.

h) Inventories

Inventories are valued at the lower of cost, including related overheads, and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and the overheads incurred in bringing inventories to their present location and condition. Cost is calculated on a weighted average cost basis.

i) Trade and other receivables

Trade receivables are carried at original invoice price (which is the fair value of the consideration receivable) less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the original carrying amount and the recoverable amount, being the present value of expected cash flows receivable. The amount of the provision is recognised in the income statement.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits held on call or with maturities of less than three months at inception and highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk of changes in value, and bank overdrafts.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

k) Deferred taxation

Deferred taxation is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases. No provision is made for deferred tax which would become payable on the distribution of retained profits by overseas subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured using the tax rates expected to apply when the asset is realised or the liability settled based on tax rates enacted or substantively enacted by the balance sheet date. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised or that they will reverse. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

l) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

m) Trade payables

Trade payables are carried at the amounts expected to be paid to counterparties.

n) Employee benefits

Defined benefit plans

The Group operates defined benefit post-retirement benefit schemes and defined contribution pension schemes.

The liability recognised in the balance sheet for defined benefit schemes is the present value of schemes' liabilities less the fair value of schemes' assets. The operating and financing costs of defined benefit schemes are recognised separately in the income statement. Operating costs comprise the current service cost, any gains or losses on settlement or curtailments, and past service costs where benefits have vested. Net interest income and expense on net defined benefit assets and liabilities is determined by applying discount rates used to measure defined benefit obligations at the beginning of the year to net defined benefit assets and liabilities at the beginning of the year and is included in finance income and costs. Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised in the income statement in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined by an external consultant and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

2 Summary of significant accounting policies (continued)

o) Own shares
Own equity instruments which are re-acquired (own shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration paid to acquire such equity instruments is recognised within equity.

p) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

q) Revenue
Revenue is measured at the fair value of the right to consideration, usually the invoiced value, for the provision of goods and services to external customers excluding value added tax and other sales related taxes and is recognised when the significant risks and rewards of ownership have transferred to the customer. In most cases this coincides with the transfer of legal title of the goods. Revenue for services is recognised as the services are rendered.

r) Finance income
Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognised as it accrues.

s) Finance costs
Finance costs comprise interest expense on borrowings which are not capitalised under the borrowing costs policy, the calculated interest income on pension assets net of the calculated interest expense on pension liabilities and foreign exchange losses.

t) Income tax
Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

u) Dividends
Dividends are recognised as a liability in the period in which they are approved by shareholders. Dividends receivable are recognised when the Group's right to receive payment is established.

v) Discontinued operations
The Group reports a business as a discontinued operation when it has been disposed of in a period, or its future sale is considered to be highly probable at the balance sheet date, and results in the cessation of a major line of business or geographical area of operation.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

w) Financial instruments

Recognition

The Group recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Measurement

When financial assets and liabilities are initially recognised, they are measured at fair value being the consideration given or received plus directly attributable transaction costs.

In determining estimated fair value, investments are valued at quoted bid prices on the trade date. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded.

Loans and receivables comprise loans and advances other than purchased loans. Originated loans and receivables are initially recognised in accordance with the policy stated above and subsequently re-measured at amortised cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge risks associated with foreign exchange fluctuations. These are designated as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. Originated loans and receivables are derecognised on the date they are transferred by the Group.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

x) Business combinations

Business combinations are accounted for using the acquisition method. Goodwill on business combinations is recognised as the fair value of the consideration transferred less the fair value of the identifiable assets and liabilities acquired, and is recognised as an asset in the consolidated Balance Sheet. Costs relating to the acquisition are recognised as expenses in the consolidated income statement as incurred.

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

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 as shown in note 2.

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

				2013
£million	Sensing and Control	Components	Integrated Manufacturing Services	Total
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**

				2012 (re-presented)
£million	Sensing and Control	Components	Integrated Manufacturing Services	Total
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.

Notes to the consolidated financial statements continued

3 Segmental reporting (continued)

b) Segment assets and liabilities

£million	Assets 2013	Assets 2012 (re-presented)	Liabilities 2013	Liabilities 2012 (re-presented)
Sensing and Control	194.7	188.2	58.5	60.1
Components	51.7	55.0	15.4	19.6
Integrated Manufacturing Services	78.4	56.9	47.2	38.2
Segment assets and liabilities	324.8	300.1	121.1	117.9
Pensions and other post-employment benefits	–	–	20.5	36.8
Unallocated assets and liabilities	62.8	72.4	42.7	26.7
Total assets/liabilities	387.6	372.5	184.3	181.4

£million	Capital expenditure 2013	Capital expenditure 2012 (re-presented)	Depreciation and amortisation 2013	Depreciation and amortisation 2012 (re-presented)
Sensing and Control	21.7	18.4	15.3	14.8
Components	4.5	4.8	3.9	4.0
Integrated Manufacturing Services	3.5	1.2	2.0	1.6
Total continuing operations	29.7	24.4	21.2	20.4
Discontinued operations	–	0.4	–	0.5
Total	29.7	24.8	21.2	20.9

c) 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.

3 Segmental reporting (continued)

Non-current assets

The carrying amount of non-current assets, excluding deferred tax assets and financial assets, analysed by the geographical area in which the assets are located is shown below:

£million	2013	2012
United Kingdom	27.8	25.0
Rest of Europe	57.2	53.4
North America	69.5	71.7
Central and South America	4.3	3.9
Asia	11.8	10.3
	170.6	164.3

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

Notes to the consolidated financial statements continued

5 Discontinued operations (continued)

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 Profit for the year

Profit from continuing operations for the year is stated after charging/(crediting):

£million	2013	2012
Depreciation of property, plant and equipment	16.8	15.8
Amortisation of intangible assets	4.4	4.6
Net foreign exchange gains	(2.2)	(0.1)
Cost of inventories recognised as an expense*	417.2	378.9
Staff costs (see note 12)	152.3	143.1
Remuneration of Group Auditors		
– audit of these financial statements	0.2	0.2
– audit of financial statements of subsidiaries of the Company	0.6	0.6
– taxation compliance services	0.2	0.2
– other tax advisory services	0.1	0.1
Government grants credited	(0.6)	(0.8)
Share-based payments	1.1	1.2

Other operating income includes £nil (2012: £0.1 million) of profit on the disposal of property, plant and equipment.

*Including exceptional items

8 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 and Control division announced in June 2013. The charges 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.

Notes to the consolidated financial statements continued

9 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.

10 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.

11 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 9a)	(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

Notes to the consolidated financial statements continued

12 Employee information

The average number of full time equivalent employees (including Directors) during the year from continuing operations was:

Number	2013	2012 (re-presented)
By function		
Production	4,971	4,757
Sales and distribution	344	364
Administration	359	343
	5,674	5,464
By division		
Sensing and Control	2,503	2,473
Components	1,615	1,728
Integrated Manufacturing Services	1,556	1,263
Total continuing operations	5,674	5,464

The aggregate emoluments including those of Directors for the year were:

£million	2013	2012
Wages and salaries	121.5	113.4
Social security charges	28.7	27.8
Employers' pension costs	2.1	1.9
	152.3	143.1

Remuneration in respect of the Directors was as follows:

£million	2013	2012
Emoluments	1.6	1.5

Further details of individual Directors' remuneration, pension benefits and share awards are shown in the Annual report on remuneration on pages 66 to 72.

Key management personnel

The remuneration of key management during the year was as follows:

£million	2013	2012
Short-term benefits	4.1	3.4
Termination payments	0.3	0.1
Post-employment benefits	0.2	0.2
Share-based payments	0.6	0.8
	5.2	4.5

In accordance with IAS 24 "Related party disclosures", key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Key management personnel comprise the Directors, Company Secretary, Divisional Chief Executives and other members of the Operating Board. Their compensation is considered and recommended to the Board by the Remuneration Committee.

13 Property, plant and equipment

£million	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2012	61.5	298.4	359.9
Additions	1.6	17.1	18.7
Businesses acquired	–	0.3	0.3
Disposals	(3.2)	(20.5)	(23.7)
Disposal of subsidiaries	(4.3)	(5.3)	(9.6)
Net exchange adjustment	(1.3)	(7.0)	(8.3)
At 1 January 2013	54.3	283.0	337.3
Additions	1.2	19.1	20.3
Disposals	(1.1)	(19.1)	(20.2)
Net exchange adjustment	0.2	(0.4)	(0.2)
At 31 December 2013	**54.6**	**282.6**	**337.2**
Depreciation and impairment			
At 1 January 2012	21.7	247.3	269.0
Depreciation charge	1.7	14.6	16.3
Impairment	0.6	–	0.6
Disposals	(3.2)	(20.3)	(23.5)
Disposal of subsidiaries	(1.1)	(3.8)	(4.9)
Net exchange adjustment	(0.4)	(5.7)	(6.1)
At 1 January 2013	19.3	232.1	251.4
Depreciation charge	1.7	15.1	16.8
Impairment	–	0.3	0.3
Disposals	(1.0)	(18.6)	(19.6)
Net exchange adjustment	0.1	(0.4)	(0.3)
At 31 December 2013	**20.1**	**228.5**	**248.6**
Net book value			
At 31 December 2013	**34.5**	**54.1**	**88.6**
At 31 December 2012	35.0	50.9	85.9

Included within land and buildings are three (2012: three) investment properties with a carrying value of £1.2 million (2012: £1.3 million). The fair value of these properties is £4.5 million (2012: £6.2 million).

The depreciation charge for the year allocated to continuing operations is £16.8 million (2012: £15.8 million) and discontinued operations £nil (2012: £0.5 million). The impairment charge for the year allocated to continuing operations is £0.3 million (2012: £nil) and discontinued operations £nil (2012: £0.6 million).

Notes to the consolidated financial statements continued

14 Goodwill

	£million
Cost	
At 1 January 2012	67.3
Net exchange adjustment	(2.1)
At 1 January 2013	65.2
Net exchange adjustment	(1.3)
At 31 December 2013	**63.9**

Following the reorganisation of the Group in 2013 goodwill is attributed to the following cash-generating units in the divisions shown below:

	£million
Sensing and Control:	
Variable Components	23.1
Optoelectronics	17.3
Components:	
Power and Hybrids	4.9
Resistors	1.8
Integrated Manufacturing Services:	
TT Electronics Integrated Manufacturing Services, USA	7.6
TT Electronics Integrated Manufacturing Services Suzhou	5.1
New Chapel Electronics, UK	3.4
Other	0.7

At 31 December 2012 and under the previous organisational structure the goodwill was allocated as follows:

	£million
Components:	
BI Technologies, USA	28.1
Optek Technology, USA	17.7
New Chapel Electronics, UK	3.4
Semelab, UK	2.3
Integrated Manufacturing Services:	
TT Electronics Integrated Manufacturing Services, USA	7.8
TT Electronics Integrated Manufacturing Services, Suzhou	5.2
Other	0.7

The Group tests goodwill impairment for each cash-generating unit ("CGU") annually or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and operating cash projections during the period for which management have detailed plans. Management estimate discount rates using pre-tax rates that reflect current market assessments of the Group's time value of money and the risks specific to the CGU being measured.

As part of the annual budgeting and strategic review processes, the Group prepares cash flow forecasts for the following three years. The growth rate assumed after this three-year period for a further 10 years is based on long-term GDP projections of the primary market for the CGU and a conservative 1% growth rate thereafter in perpetuity. The long-term GDP projections used are based on GDP growth of 2.5% for the UK businesses and 3.0% for the US and Chinese businesses (2012: 2.5% for the UK businesses and 3.0% for the US and Chinese businesses). The growth rates assume that demand for our products remains broadly in line with the underlying economic environment in the long-term future. Taking into account our expectation of future market conditions, we believe that the evolution of selling prices and cost measures put into place will lead to a sustained improvement in profitability which is higher than in recent years.

14 Goodwill (continued)

The discount rates used to discount the forecast cash flows are:

	2013	2012
UK businesses	8.1%	7.6%
US businesses	9.5%	10.0%
Chinese business	11.5%	11.5%

Following detailed review, no impairment losses have been recognised in the current or prior year.

The goodwill allocated to each of Variable Components, Optoelectronics, Power and Hybrids, TT Electronics Integrated Manufacturing Services, USA, TT Electronics Integrated Manufacturing Services, Suzhou, and New Chapel Electronics are considered to be individually significant. After translation using year-end foreign exchange rates, these CGUs represent 96% or £61.4 million of the total goodwill balance.

The recoverable amounts exceed the total carrying value of assets for the CGUs by the following amounts:

£million	2013
Variable Components	16.4
Optoelectronics	32.4
Power and Hybrids	22.7
TT Electronics Integrated Manufacturing Services, USA	14.5
TT Electronics Integrated Manufacturing Services, Suzhou	34.2
New Chapel Electronics, UK	1.7

The recoverable amounts associated with these goodwill balances have been determined on a value in use basis using conservative assumptions. A value in use test requires comparison of asset carrying values with pre-tax cash flows (which exclude any tax benefit).

A key assumption in the value in use test is the projected performance of the cash-generating units based on cash flow forecasts. The recoverable amounts associated with the goodwill balances are based on these performance projections, and based on current forecast information do not indicate that any goodwill balance is impaired. If a company's actual performance does not meet these projections this could lead to an impairment of the goodwill in future periods.

Other key assumptions and sensitivities are as follows:

Long-term growth rate

The budget and strategic review for these companies have been extrapolated in perpetuity using a long-term growth rate of 1.0% and discounted using the relevant entity discount rate. A key assumption in deriving the growth rate is that the businesses will grow in line with the underlying economic environment for the foreseeable future. Revenue growth would need to decrease annually by the following amounts for the carrying values to be impaired:

	2013
Variable Components	7.0%
Optoelectronics	37.2%
Power and Hybrids	14.0%
TT Electronics Integrated Manufacturing Services, USA	11.6%
TT Electronics Integrated Manufacturing Services, Suzhou	28.8%
New Chapel Electronics, UK	3.5%

Notes to the consolidated financial statements continued

14 Goodwill (continued)

Discount rate

Sensitivity analysis has determined that the discount rate is an influential assumption on the outcome of the recoverable amount calculation. For the carrying values to be impaired, the discount rate would need to increase to the following amounts:

	2013
Variable Components	13.5%
Optoelectronics	25.9%
Power and Hybrids	16.1%
TT Electronics Integrated Manufacturing Services, USA	16.3%
TT Electronics Integrated Manufacturing Services, Suzhou	27.3%
New Chapel Electronics, UK	9.8%

Cash flows

Sensitivity analysis has also been performed on the operating cash flow projections. Cash flows can be impacted by changes to sales projections, sales prices, direct costs and replacement capital expenditure. In order for the carrying values to be impaired the expected cash flows for every year would need to reduce by the following:

	2013
Variable Components	34%
Optoelectronics	62%
Power and Hybrids	55%
TT Electronics Integrated Manufacturing Services, USA	46%
TT Electronics Integrated Manufacturing Services, Suzhou	62%
New Chapel Electronics, UK	21%

The Directors have not identified any other likely changes in other significant assumptions that would cause the carrying value of recognised goodwill to exceed its recoverable amount.

15 Other intangible assets

£million	Product development costs	Patents, licences and other	Customer relationships	Total
Cost				
At 1 January 2012	17.5	5.6	3.5	26.6
Additions	4.8	1.3	–	6.1
Net exchange adjustment	(0.4)	–	–	(0.4)
At 1 January 2013	21.9	6.9	3.5	32.3
Additions	5.2	4.2	–	9.4
Net exchange adjustment	0.1	(0.1)	–	–
At 31 December 2013	**27.2**	**11.0**	**3.5**	**41.7**
Amortisation				
At 1 January 2012	9.5	3.0	2.3	14.8
Charge for the year	3.6	0.7	0.3	4.6
Impairment	0.1	–	–	0.1
Net exchange adjustment	(0.3)	–	(0.1)	(0.4)
At 1 January 2013	12.9	3.7	2.5	19.1
Charge for the year	3.1	1.0	0.3	4.4
Impairment	0.1	–	–	0.1
At 31 December 2013	**16.1**	**4.7**	**2.8**	**23.6**
Net book value				
At 31 December 2013	**11.1**	**6.3**	**0.7**	**18.1**
At 31 December 2012	9.0	3.2	1.0	13.2

Included within patents, licenses and other are intangible assets under construction with a carrying value of £2.2 million (2012: £2.2 million).

16 Inventories

£million	2013	2012
Raw materials	**36.8**	31.4
Work in progress	**21.3**	19.0
Finished goods	**21.9**	17.8
	80.0	68.2

Inventories are stated after deduction of a provision for slow moving and obsolete items of £28.9 million (2012: £25.8 million).

17 Trade and other receivables

£million	2013	2012
Trade receivables	**58.2**	50.5
Prepayments	**8.2**	9.7
Other receivables	**8.0**	7.4
	74.4	67.6

Trade receivables include £2.5 million of receivables due after more than one year.

Provisions for impairment in respect of trade receivables are shown in note 21(d)(ii).

Notes to the consolidated financial statements continued

18 Trade and other payables

£million	2013	2012
Current liabilities		
Trade payables	62.3	50.4
Taxation and social security	2.7	3.1
Other payables, accruals and deferred income	39.3	38.2
Financial liability to settle minority interest	0.5	8.2
	104.8	99.9

£million	2013	2012
Non-current liabilities		
Accruals and deferred income	6.1	6.2
Financial liability to settle minority interest	–	0.5
	6.1	6.7

19 Provisions

£million	Operational Improvement Plan	Reorganisation	Legal and other	Total
At 1 January 2012	–	1.7	4.9	6.6
Utilised	–	(0.9)	(0.1)	(1.0)
Arising during the year	–	0.4	4.7	5.1
At 1 January 2013	–	1.2	9.5	10.7
Utilised	(0.4)	(1.7)	(3.3)	(5.4)
Arising during the year	3.1	2.6	(0.8)	4.9
At 31 December 2013	**2.7**	**2.1**	**5.4**	**10.2**

The Operational Improvement Plan provision relates to fundamental restructuring of the manufacturing footprint and sales organisation of the Sensing and Control division. The balance as at 31 December 2013 includes the Directors' best estimate of costs to complete the movement of production at the Fullerton facilities in California to Mexicali and closure of sales offices in France, Italy and Japan.

The Reorganisation provision primarily relates to the restructuring programme associated with the closure of the Boone, North Carolina operations, the post-acquisition restructuring of the ACW Technology Limited business and costs associated with the closure of AB Interconnect.

Legal and other claims represent the best estimate for the cost of settling outstanding product and other claims, and warranty provisions issued on the disposal of businesses. The Group has, on occasion, been required to enforce commercial contracts and similarly to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent management's best estimate of the likely outcome. The timing of utilisation of these provisions is frequently uncertain, reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent the Directors' best estimate of the cost of settling future obligations although there is a higher degree of judgement involved. Unless specific evidence exists to the contrary, these provisions are shown as current.

No provision is made for proceedings which have been or might be brought by other parties against Group companies unless management, taking into account professional advice received, assesses that it is more likely than not that such proceedings may be successful. Contingent liabilities associated with such proceedings have been identified, but the Directors are of the opinion that any associated claims that might be brought can be resisted successfully, and therefore the possibility of any material outflow in settlement in excess of amounts provided is assessed as remote.

The total provisions are analysed between current and non-current as follows:

£million	2013	2012
Non-current	0.2	0.2
Current	10.0	10.5
	10.2	10.7

The timing of the utilisation of these amounts is uncertain as they are subject to commercial negotiation and legal process in different jurisdictions.

20 Borrowings

£million	Maturity	Currency of denomination	Current	Non-current	Total
31 December 2013					
£45 million multi-currency revolving credit facility	**2017**	**GBP**	**–**	**1.0**	**1.0**
$30 million USD bilateral revolving credit facility	**2017**	**USD**	**–**	**18.1**	**18.1**
$10 million USD bilateral revolving credit facility	**2017**	**USD**	**–**	**4.2**	**4.2**
AB Mikroelektronik GmbH loan	**2015**	**Euro**	**4.0**	**0.8**	**4.8**
Overdrafts			**–**	**–**	**–**
Finance leases			**0.1**	**0.1**	**0.2**
Loan arrangement fee			**(0.2)**	**(0.5)**	**(0.7)**
Total			**3.9**	**23.7**	**27.6**
31 December 2012					
£45 million multi-currency revolving credit facility	2017	GBP	–	1.0	1.0
$30 million USD bilateral revolving credit facility	2017	USD	–	6.8	6.8
$10 million USD bilateral revolving credit facility	2017	USD	–	0.6	0.6
AB Mikroelektronik GmbH loan	2015	Euro	3.9	0.7	4.6
Finance leases			0.1	0.1	0.2
Loan arrangement fee			(0.2)	(0.6)	(0.8)
Total			3.8	8.6	12.4

In August 2012, the Group agreed a new five-year committed revolving credit facility of £70 million and a further incremental accordion facility of £42 million with a club of four banks comprising HSBC, The Royal Bank of Scotland, Santander UK and Barclays Bank, as well as two separate bi-lateral agreements with Fifth Third Bank and Comerica Bank, both within the USA. At 31 December 2013 £23.3 million of the revolving credit facility was drawn down and the accordion facility was undrawn. Arrangement fees with a gross cost before amortisation of £0.9 million, and amortised cost of £0.6 million, have been netted off against these borrowings.

The interest margin payable on the facility is based on the Group's compliance with financial covenants (net debt/EBITDA before exceptional items) and is payable on a floating basis above £LIBOR or $LIBOR depending on the currency of denomination of the loan.

The loan in AB Mikroelektronik GmbH is an export facility loan and used for working capital purposes within that business.

Undrawn facilities

At 31 December 2013, the total borrowing facilities available to the Group amounted to £143.3 million (2012: £145.7 million). At 31 December 2013, the Group had available £45.9 million (2012: £61.6 million) of undrawn committed borrowing facilities and £69.3 million (2012: £71.1 million) of undrawn uncommitted borrowing facilities, representing overdraft lines and the accordion facility.

Notes to the consolidated financial statements continued

21 Financial risk management

The financial information disclosed in the tables relating to the year ended 31 December 2013 represents continuing operations only.

The main risks arising from the Group's financial instruments are foreign exchange risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from exposures that occur in the normal course of business and 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 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 treasury activities undertaken by the Group. The Group Treasury department operates as a service centre to the business divisions of the Group and not as a profit centre.

A Group Treasury policy has been approved by the Board of Directors and is periodically updated to reflect developments in the financial markets and the financial exposure facing the Group. The Group's Treasury and internal audit departments monitor compliance with the Treasury Policy on a regular basis.

The Group's principal financial instruments comprise borrowings, cash and cash equivalents and derivatives used for risk management purposes. The Group's borrowings, surplus liquidity and derivative financial instruments are monitored and managed centrally by the Group's Treasury department.

The Group's accounting policies with regard to financial instruments are detailed in note 2(w).

a) Derivatives, financial instruments and risk management

The Group uses derivative financial instruments to manage certain exposures to fluctuations in exchange rates, interest rates and commodity prices. The Group does not hold any speculative financial instruments.

The Group is exposed to transactional and translation foreign exchange risk. Transactional foreign exchange risk arises from sales or purchases by a Group company in a currency other than that company's functional currency. Translational foreign exchange risk arises on the translation of profits earned in overseas currencies into GBP and the translation of net assets denominated in overseas currencies into GBP, the Group's functional currency.

To mitigate transactional foreign exchange risk, wherever possible, Group companies enter into transactions in their functional currencies with customers and suppliers. When this is not possible, then hedging strategies are undertaken through the use of forward currency contracts for up to one year ahead.

The Group uses average rate forward currency hedges to mitigate translational foreign exchange risk taking into account the level of forecast profits in foreign currencies, natural hedges and the cost of taking out cover. During 2013, the Group took out average rate forward contracts hedging GBP against a portion of US dollar and euro forecast cash flows for 2013. In 2013, the Group generated a loss of £0.4 million on the hedges that matured in 2013. There were no average rate forward contracts outstanding at 31 December 2013.

The Group's interest rate management policy is to maintain a balance between fixed and floating rates of interest on borrowings and deposits, and to use interest rate derivatives when appropriate. Given the current low levels of interest rates no interest rate derivatives were outstanding at the year end.

During 2013, the Group took out hedges against a portion of the commodity purchases for 2013. In 2013 the Group generated a loss of £0.1 million on the hedges that matured during 2013.

The forward currency contracts and commodity hedges have been designated as cash flow hedges and the mark to market valuation of these derivatives at 31 December 2013 is taken to the hedging reserve within equity. At 31 December 2013, the Group had a net derivative financial asset of £0.8 million (2012: £0.2 million).

21 Financial risk management (continued)

b) Foreign exchange risk

The Group's exposure to foreign currency is shown below:

£million	GBP	USD	Euro	Other	Total
31 December 2013					
Trade and other receivables	0.4	6.6	2.4	0.1	9.5
Cash and cash equivalents	0.4	11.2	1.6	0.9	14.1
Borrowings	–	(22.3)	–	–	(22.3)
Trade and other payables	(2.6)	(8.2)	(1.1)	(1.9)	(13.8)
	(1.8)	(12.7)	2.9	(0.9)	(12.5)
31 December 2012					
Trade and other receivables	0.3	5.3	1.8	–	7.4
Cash and cash equivalents	0.2	12.1	1.6	0.5	14.4
Borrowings	–	(7.4)	–	–	(7.4)
Trade and other payables	(1.2)	(6.2)	(0.5)	–	(7.9)
	(0.7)	3.8	2.9	0.5	6.5

A 10% strengthening of GBP against the following currencies at 31 December would have increased/(decreased) equity and profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

£million	2013	2012
US dollar	0.8	0.2
Euro	(0.3)	0.3

A 10% weakening of GBP against the above currencies at 31 December would have had an equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant.

c) Interest rate risk

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates primarily impact borrowings by changing their future cash flows (floating rate debt) or their fair value (fixed rate debt) and deposits.

The exposure of the Group's financial assets and liabilities to interest rate risk is as follows:

£million	Floating rate	Fixed rate	Non-interest bearing	2013 total
Financial assets				
Trade and other receivables	–	–	64.9	64.9
Cash and cash equivalents	54.5	–	–	54.5
Derivative financial instruments	–	–	0.8	0.8
Total financial assets	54.5	–	65.7	120.2
Financial liabilities				
Borrowings	(26.7)	(0.9)	–	(27.6)
Trade and other payables	–	–	(110.7)	(110.7)
Total financial liabilities	(26.7)	(0.9)	(110.7)	(138.3)

At 31 December 2013, 3% (2012: 7%) of total debt was at a fixed rate and the balance was at floating rate.

Notes to the consolidated financial statements continued

21 Financial risk management (continued)

£million	Floating rate	Fixed rate	Non-interest bearing	2012 total
Financial assets				
Trade and other receivables	–	–	57.3	57.3
Cash and cash equivalents	59.1	–	–	59.1
Derivative financial instruments	–	–	0.2	0.2
Total financial assets	59.1	–	57.5	116.6
Financial liabilities				
Borrowings	(11.5)	(0.9)	–	(12.4)
Trade and other payables	–	–	(105.3)	(105.3)
Total financial liabilities	(11.5)	(0.9)	(105.3)	(117.7)

The interest charged on floating rate financial liabilities is based on the relevant benchmark rate (such as LIBOR). Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Considering the net cash position of the Group at 31 December 2013, any increase in interest rates would result in a net gain in the consolidated income statement, and any decrease in interest rates would result in a net loss. The effect on profit after tax of a 1% movement in £LIBOR, based on the year end floating rate net cash and with all other variables held constant, is estimated to be £0.2 million (2012: £0.1 million).

d) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets. Investments in cash and cash equivalents and derivative financial instruments are with approved counterparty banks and other financial institutions. Counterparties are assessed prior to, during, and after the conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level. The maximum exposure with respect to credit risk is represented by the carrying amount of each financial asset on the balance sheet.

Credit risk relating to trade receivables

The Group's major exposure to credit risk is in respect of trade receivables. Given the number and geographical spread of the Group's ultimate customers and the solvency of major trade debtors, credit risk is believed to be limited. The Group is not reliant on any particular customer in the markets in which it operates and there is no significant concentration of credit risk. The Group regularly monitors its exposure to bad debts in order to minimise this exposure.

The Group has strict procedures in place to manage the credit risk on trade receivables. Customer credit risk is managed by each operating company within a division but is subject to Group oversight to ensure that each division's customer credit risk management system operates in a prudent and responsible manner. Credit evaluations are performed for all customers and credit limits are established based on internal or external rating criteria. The credit quality of the Group's significant customers is monitored on an ongoing basis, and receivables that are neither past due nor impaired are considered of good credit quality. Letters of credit or payments in advance are obtained where customer credit quality is not considered strong enough for open credit.

Trade receivables are denominated in the currencies in which the Group trades. The Group's policy is that receivables and payables not in the functional currency of the subsidiary concerned are covered by forward foreign currency exchange contracts. The exchange risk at Group level is therefore restricted to the risk on the translation of overseas assets, liabilities and cash flows into GBP which can be hedged using foreign exchange hedges.

There were no material impairments of trade receivables as at 31 December 2013 or 2012. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets.

(i) Risk for trade receivables by geographical regions

The maximum exposure to credit risk for trade receivables at 31 December by geographic areas was:

£million	2013	2012
Europe (including UK)	**38.2**	34.1
North America	**9.4**	7.7
Central and South America	**0.2**	0.3
Asia	**10.0**	7.9
Rest of the World	**0.4**	0.5
	58.2	50.5

21 Financial risk management (continued)

(ii) Impairment losses

The ageing of trade receivables at 31 December was:

£million	2013 Gross	2013 Impairment	2012 Gross	2012 Impairment
Not past due	48.9	–	37.4	–
Past due 0 – 60 days	7.3	(0.3)	11.9	(0.1)
Past due 61 – 120 days	2.5	(0.3)	1.6	(0.4)
More than 120 days	0.8	(0.7)	1.0	(0.9)
	59.5	(1.3)	51.9	(1.4)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

£million	2013	2012
At 1 January	1.4	2.3
Credited to income statement	(0.1)	(0.5)
Businesses disposed	–	(0.4)
At 31 December	1.3	1.4

(iii) Credit risk related to other financial assets and cash deposits

Credit risk relating to the Group's other financial assets, principally comprising cash and cash equivalents, other receivables and derivative financial instruments arises from the potential default of counterparties. Credit risk arising from balances with banks and financial institutions is monitored by the Group's Treasury department. Investment of cash and deposits are made only with approved counterparties of high credit worthiness and are reviewed on a regular basis to take account of developments in financial markets.

No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to derivative financial instruments and other receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

£million	2013	2012
Other receivables	6.7	7.4
Cash and cash equivalents	54.5	59.1
Derivative financial instruments (current assets)	0.8	0.2

e) Liquidity risk

The Group maintains a balance between availability of funding and maximising investment return on cash balances through the use of short-term cash deposits, credit facilities and longer term debt instruments. Management regularly reviews the funding requirements of the Group.

The Group's policy is to centrally manage debt and surplus cash balances.

At 31 December 2013, the Group had £45.9 million of undrawn committed borrowing facilities (2012: £61.6 million).

Maturity of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities, which will be settled on a gross basis, into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2013						
Trade and other receivables	0.1	59.3	3.0	2.5	–	64.9
Cash and cash equivalents	53.9	0.6	–	–	–	54.5
Derivative financial instruments	–	–	0.8	–	–	0.8
	54.0	59.9	3.8	2.5	–	120.2
Borrowings	–	(4.2)	(0.6)	(26.1)	–	(30.9)
Trade and other payables	–	(97.8)	(8.9)	(3.4)	(0.6)	(110.7)
	–	(102.0)	(9.5)	(29.5)	(0.6)	(141.6)

Notes to the consolidated financial statements continued

21 Financial risk management (continued)

At 31 December 2013, the Group had derivative financial instruments hedging a notional contractual amount of £49.2 million of foreign exchange and commodity cash flows. Of this total amount, £49.2 million matures within one year.

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2012						
Trade and other receivables	–	54.3	2.9	0.1	–	57.3
Cash and cash equivalents	59.1	–	–	–	–	59.1
Derivative financial instruments	–	–	0.2	–	–	0.2
	59.1	54.3	3.1	0.1	–	116.6
Borrowings	–	(4.0)	(0.2)	(10.0)	–	(14.2)
Trade and other payables	–	(90.1)	(10.1)	(3.0)	(2.1)	(105.3)
Derivative financial instruments	–	–	–	–	–	–
	–	(94.1)	(10.3)	(13.0)	(2.1)	(119.5)

f) Fair value of financial assets and liabilities

The Group has adopted IFRS 13 "Fair Value Measurement" which requires an analysis of those financial instruments that are measured at fair value at the end of the year in a fair value hierarchy. In addition IFRS 13 requires financial instruments not measured at fair value but for which fair value is disclosed to be analysed in the same fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

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

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Held at amortised cost				
Cash and cash equivalents	**54.5**	**54.5**	59.1	59.1
Trade and other receivables	**64.9**	**64.9**	57.3	57.3
Trade and other payables	**(110.7)**	**(110.7)**	(105.3)	(105.3)
Borrowings	**(27.6)**	**(27.6)**	(12.4)	(12.4)
Held at fair value				
Derivative financial instruments (Level 1 and 2)	**0.8**	**0.8**	0.2	0.2
Held at depreciated cost				
Investment properties	**1.2**	**4.5**	1.3	6.2

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- cash and cash equivalents, trade and other receivables, trade and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments;
- the fair value of borrowings is estimated by discounting future cash flows using rates currently available for debt and remaining maturities.
- the fair value of derivative financial instrument assets (£0.8 million) are estimated by discounting expected future cash flows using current market indices such as yield curves and forward exchange rates over the remaining term of the instrument (level 1 and level 2); and
- the fair value of investment properties are based on market valuations obtained through third party valuations.

21 Financial risk management (continued)

g) Capital management

The over-riding objectives of the Group's capital management policy are to safeguard and support the business as a going concern through the business cycle and to maintain an optimal capital structure by reducing the Group's overall cost of capital. The Board considers equity shareholders' funds as capital.

The Group maintains a balance between availability of funding and maximising investment return on cash balances through the use of short-term cash deposits, credit facilities and longer term debt instruments, and management regularly reviews the funding requirements of the Group.

Dividends are paid when the Board consider it appropriate to do so, taking into account the availability of funding. The Group's dividend policy is to increase dividends progressively whilst maintaining cover of at least two times underlying earnings per share.

The Group is in a net cash position of £26.9 million (2012: £46.7 million). Included within the debt facilities are certain financial covenants related to net debt/EBITDA before exceptional items and EBITDA before exceptional items/net finance charges for which compliance certificates are produced on a 12 month rolling basis every half year. All financial covenants were fully complied with during the year and up to the date of approval of the financial statements. There are no covenants under negotiation at present.

Notes to the consolidated financial statements continued

22 Deferred tax

The amounts of deferred taxation assets/(liabilities) provided in the financial statements are as follows:

£million	As at 1 January 2013	Continuing operations	Discontinued operations	Recognised in equity/ OCI	Net exchange translation	Transfer to current tax	As at 31 December 2013
Intangible assets	(4.3)	(0.5)	–	–	–	–	(4.8)
Property, plant and equipment	(1.4)	(0.4)	–	–	0.1	–	(1.7)
Deferred development costs	(2.8)	(0.5)	–	–	–	–	(3.3)
Retirement benefit obligations	9.3	(1.0)	–	(3.8)	(0.1)	–	4.4
Inventories	2.0	0.5	–	–	–	–	2.5
Provisions	3.4	1.8	–	–	(0.1)	–	5.1
Tax losses	4.0	(0.9)	–	–	(0.1)	(2.2)	0.8
Unremitted overseas earnings	(0.9)	–	–	–	–	–	(0.9)
Share-based payments	1.0	(0.7)	–	(0.2)	–	–	0.1
Short-term timing differences	0.4	0.1	–	–	(0.1)	–	0.4
Deferred tax asset/(liability)	10.7	(1.6)	–	(4.0)	(0.3)	(2.2)	2.6

£million	As at 1 January 2012	Continuing operations	Discontinued operations	Recognised in equity/ OCI	Net exchange translation	Transfer to current tax	As at 31 December 2012
Intangible assets	(4.2)	(0.2)	–	–	0.1	–	(4.3)
Property, plant and equipment	(1.6)	0.4	–	–	(0.2)	–	(1.4)
Deferred development costs	(2.3)	(0.3)	–	–	(0.2)	–	(2.8)
Retirement benefit obligations	9.6	(0.1)	–	(0.4)	0.2	–	9.3
Inventories	2.7	(1.0)	0.5	–	(0.2)	–	2.0
Provisions	5.2	(0.8)	(1.1)	–	0.1	–	3.4
Tax losses	2.1	1.9	–	–	–	–	4.0
Unremitted overseas earnings	(1.2)	0.3	–	–	–	–	(0.9)
Share-based payments	1.3	0.5	–	(0.8)	–	–	1.0
Short-term timing differences	0.1	0.5	(0.2)	–	–	–	0.4
Deferred tax asset/(liability)	11.7	1.2	(0.8)	(1.2)	(0.2)	–	10.7

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances:

£million	2013	2012
Deferred tax assets	7.3	13.1
Deferred tax liabilities	(4.7)	(2.4)
Net deferred tax asset	2.6	10.7

The Group has recognised deferred tax assets of £0.3 million in a number of entities which have incurred losses in 2012 or 2013. Such assets have been recognised due to the availability of suitable taxable profits in future periods to support their recovery.

At 31 December 2013, the gross amount and expiry date of losses available for carry forward are as follows:

£million	Expiring within 5 years	Expiring within 6-10 years	Unlimited	Total
Losses for which a deferred tax asset has been recognised	0.1	0.7	2.7	3.5
Losses for which no deferred tax asset has been recognised	0.8	0.7	29.6	31.1
	0.9	1.4	32.3	34.6

22 Deferred tax (continued)

At 31 December 2012, the gross amount and expiry date of losses available for carry forward are as follows:

£million	Expiring within 5 years	Expiring within 6-10 years	Unlimited	Total
Losses for which a deferred tax asset has been recognised	–	–	11.7	11.7
Losses for which no deferred tax asset has been recognised	2.4	0.3	25.2	27.9
	2.4	0.3	36.9	39.6

Included within the £31.1 million (2012: £27.9 million) of unrecognised tax losses in the table above is £23.5 million (2012: £21.5 million) of tax losses within the Company. Since UK tax legislation does not allow the utilisation of brought forward tax losses of one UK entity against the current year tax profits of another UK entity, the use of these tax losses is limited.

At 31 December 2013, the Group had other items for which no deferred tax assets have been recognised as follows:

£million	2013	2012
Other temporary differences	**14.2**	10.0

At the balance sheet date the aggregate unrecognised deferred tax liability in respect of undistributed earnings of overseas subsidiaries is £0.7 million (2012: £nil). This is in respect of undistributed earnings in overseas subsidiaries of £40.3 million (2012: £37.3 million).

Notes to the consolidated financial statements continued

23 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 £19.1 million 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 pensions (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.

23 Retirement benefit schemes (continued)

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.

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

£million	2013	2012*
Defined benefit obligation at 1 January	424.3	413.5
Interest on obligation	18.2	19.0
Settlements and curtailments	(0.4)	–
Change in actuarial estimates and assumptions	(8.9)	8.5
Benefits paid	(18.6)	(16.7)
Defined benefit obligation at 31 December	414.6	424.3

Notes to the consolidated financial statements continued

23 Retirement benefit schemes (continued)

Changes in the fair value of the schemes' assets are:

£million	2013	2012*
Fair value of schemes' assets at 1 January	387.5	378.0
Interest income on defined benefit scheme assets*	16.7	17.1
Return on scheme assets, excluding interest income*	4.0	4.2
Contributions by employer	4.3	4.9
Benefits paid	(18.4)	(16.7)
Fair value of schemes' assets at 31 December	394.1	387.5

* Re-presented for IAS 19 (revised).

24 Share capital

£million	2013	2012
Issued and fully paid		
158,608,324 (2012: 156,950,664) Ordinary shares of 25p each	39.7	39.2

During 2013 the Company issued 867,400 Ordinary shares on the vesting of the Long Term Incentive Plan awards issued in 2010. The shares were then allocated to award holders via an Employee Benefit Trust for nil consideration. A charge of £0.2 million has been recognised in retained earnings accordingly.

The Company also issued 790,260 Ordinary shares as a result of share options being exercised under the 1994 Approved Plan, 1996 Unapproved Plan (grants made in 2003), 2004 Approved Plan and Unapproved Plan, the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.9 million, which resulted in an increase in share premium of £0.7 million.

25 Share-based payment plans

The Company has the following share-based payment plans in operation at 31 December 2013:

- Share option schemes, which are closed for future grants;
- Long Term Incentive Plan ("LTIP") for senior executives;
- Restricted Share Plan for certain senior executives; and
- Sharesave plans for UK, German and Austrian employees; and Share Purchase plans for US employees.

a) Share option schemes

Details of the share options outstanding during the year are as follows:

	2013		2012	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
At 1 January	346,364	100.5	579,568	115.9
Forfeited	(27,480)	145.8	(60,056)	75.6
Exercised	(257,586)	91.0	(37,377)	145.0
Expired	(23,750)	80.0	(135,771)	165.0
At 31 December	37,548	145.0	346,364	100.5
Exercisable at 31 December	37,548	145.0	108,989	145.0

25 Share-based payment plans (continued)

At 31 December 2013 options were exercisable over 37,548 (2012: 346,364) Ordinary shares under the Group share option schemes up to May 2014. The only remaining option has a subscription price of 145p and a remaining contractual life of 0.33 years (2012: 0.64 years). Options are equity settled, have a life of ten years and vest after three years. Exercise of the options is conditional on there being an increase in earnings per share over any consecutive three-year period above the increase in the Retail Price Index over the same period.

Following the approval of the Long Term Incentive Plan 2005 at the Extraordinary General Meeting held on 20 October 2006, all existing share option schemes were closed for future grants.

b) Long Term Incentive Plans

Details of the LTIP awards outstanding during the year are as follows:

	2013	2012
	Number of share awards	Number of share awards
At 1 January	**4,184,223**	6,609,747
Granted	**1,294,107**	1,154,691
Forfeited	**(408,562)**	(607,544)
Vested	**(1,440,426)**	(2,972,671)
At 31 December	**3,629,342**	4,184,223
Exercisable at 31 December	**–**	–

During 2012 and 2013 grants of awards were made under the LTIP for the issue of shares in 2015 and 2016 respectively. The award is a contingent right to receive shares in the future, subject to continued employment and the achievement of predetermined performance criteria. The performance targets attached to awards require the achievement of earnings per share ("EPS") and total shareholder return ("TSR") targets as detailed in the Annual report on remuneration on page 68.

On 17 April, 3 September and 15 October 2013 grants of awards were made under the LTIP for the issue of up to 948,607 shares, 323,500 shares and 22,000 shares in 2016. On 25 April 2012 grants of awards were made under the LTIP for the issue of up to 1,154,691 shares in 2015.

The fair value of the shares was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the shares were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share price performance.

The following table lists the inputs to the model:

	2013		2012
	Shares with a 3 September 2013 grant date	Shares with a 17 April 2013 grant date	Shares with a 25 April 2012 grant date
Number of awards	**345,500**	**948,607**	1,154,691
Fair value at grant date	**144.3p**	**120.0p**	144.0p
Share price at grant date	**190.0p**	**161.0p**	182.5p
Exercise price	**£nil**	**£nil**	£nil
Expected volatility	**42%**	**42%**	49 %
Expected weighted average life at 31 December (years)	**2.7**	**2.3**	2.3

The award of shares is not affected by the risk free rate of interest since no investment is required by the recipient, and therefore no interest could be earned elsewhere. Expected volatility is based on historic share price movements.

On 3 September 2013, 37,500 (25 April 2012: 32,545) notional share awards were granted to senior executives which will ultimately be settled in cash. These awards are subject to the same vesting criteria as the 3 September 2013 (25 April 2012) LTIP grant.

The LTIP grants made in 2010 vested during 2013 achieving 94.375 % of the performance conditions. The weighted average exercise price was £nil.

The Group gave its 2010 LTIP holders the option to receive shares net of the employee tax owed. The employee tax of £1.0 million has been paid to the tax authorities in cash.

Notes to the consolidated financial statements continued

25 Share-based payment plans (continued)

c) Restricted Share Plan

On 24 September 2010, the Group granted 259,515 shares under a restricted share plan to certain senior executives. The award vested over 131,314 shares on 24 September 2013.

On 31 October 2013, the Group granted 481,900 shares under a new restricted share plan to certain senior executives. The award is a contingent right to receive shares with 40% vesting on completion of a three-year period and the remaining 60% vesting six months later subject to continued employment with the Group and the achievement of predetermined performance criteria. The performance targets attached to the awards require the achievement of three equally weighted performance criteria: Revenue Growth Targets, Profit Margin Targets and Return on Capital Employed.

Details of the restricted share plan awards outstanding during the year are as follows:

	2013 Number of share awards	2012 Number of share awards
At 1 January	207,612	259,515
Granted	481,900	–
Forfeited	(76,298)	(51,903)
Exercised	(131,314)	–
Expired	–	–
At 31 December	481,900	207,612
Exercisable at 31 December	–	–

The fair value of the shares at grant date 24 September 2010 was 139.0p. On 24 October 2010, the Company purchased 259,515 shares at a cost of £0.4 million through an Employee Benefit Trust. These shares are dilutive for the purpose of earnings per share.

The fair value of the shares at grant date 31 October 2013 was 184.3p vesting 31 October 2016 and 181.9p vesting 30 April 2017.

d) Sharesave schemes

The Group operates Sharesave schemes for participating employees in the UK, Germany and Austria under a three-year plan (historically a five-year plan was offered which was discontinued during the year). Employees may purchase the Group's shares at a 20% discount to the market price on the day prior to the commencement of the offer up to a maximum contribution value of £3,000 (UK) or €3,480 (Germany/Austria) in any one year. Monthly contributions are saved with LloydsTSB plc, via Equiniti Ltd, the Registrars, in the employee's share savings plan and will only be released to employees who remain in the Group's employment for a period of either three or five years from commencement of the savings contract. Options become exercisable on completion of either the three- or five-year term or within six months of leaving in certain circumstances.

	Date price set	Market price	Option price	Options outstanding
UK	03 September 2010	142.5p	114.0p	511,738
Germany/Austria	19 April 2011	169.0p	136.0p	113,773
UK	2 September 2011	162.0p	130.0p	184,360
Germany/Austria	31 May 2012	162.0p	130.0p	56,660
UK	31 August 2012	148.0p	119.0p	113,493
UK	30 August 2013	186.0p	149.0p	348,481

The fair value of the shares at grant date was as follows:

pence	2013 UK	2012 UK	2012 Germany/Austria
3 year scheme	80.0	53.2	58.5
5 year scheme	n/a	61.0	67.2

25 Share-based payment plans (continued)

Details of the Sharesave awards outstanding during the year are as follows:

	2013 Number of share awards	2012 Number of share awards
At 1 January	**1,678,514**	1,725,512
Granted	**348,481**	216,730
Forfeited	**(227,536)**	(208,721)
Exercised	**(470,954)**	(55,007)
At 31 December	**1,328,505**	1,678,514
Exercisable at 31 December	**13,850**	192,438

The Group operates a Stock Purchase Plan for participating US employees, under the plan employees may purchase the Group's shares at a 15% discount to the market price at the date of acquisition, up to a maximum of $6,500 per annum. Employees save on a monthly basis and shares are purchased each quarter.

The total share-based payment charge for the year (excluding social security charges of £0.3 million (2012: £0.4 million)) arising from the above share scheme plans was £1.1 million (2012: £1.4 million).

26 Hedging and translation reserves

£million	Hedging reserve	Translation reserve	Total
At 1 January 2012	(11.5)	38.7	27.2
Exchange differences on translation of foreign operations	–	(4.3)	(4.3)
Tax on exchange differences	–	0.1	0.1
Loss on hedge of net investment in foreign operations	–	(2.8)	(2.8)
Cash flow hedges	(0.5)	–	(0.5)
Foreign exchange gain on disposals taken to income statement	–	(0.2)	(0.2)
At 1 January 2013	(12.0)	31.5	19.5
Exchange differences on translation of foreign operations	–	(1.6)	(1.6)
Loss on hedge of net investment in foreign operations	–	(0.9)	(0.9)
Cash flow hedges	0.3	–	0.3
At 31 December 2013	**(11.7)**	**29.0**	**17.3**

27 Retained earnings

£million	
At 1 January 2012	119.3
Profit for the year	22.4
Fair value of minority put option	(1.1)
Dividends paid by the Company	(7.3)
New shares issued	(0.4)
Remeasurement of defined benefit pension schemes (see note 23)	(4.3)
Tax on remeasurement of pension deficit movement	(0.4)
At 1 January 2013	128.2
Profit for the year	13.0
Fair value of minority financial liability	(0.1)
Dividends paid by the Company	(8.0)
New shares issued	(0.2)
Remeasurement of defined benefit pension schemes (see note 23)	12.9
Remeasurement of other post-retirement benefit schemes	(0.3)
Tax on remeasurement of pension deficit movement	(3.9)
Tax on remeasurement of other post-retirement benefit schemes	0.1
At 31 December 2013	**141.7**

Notes to the consolidated financial statements continued

28 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).

29 Contingent liabilities

The Group has contingent liabilities amounting to £0.3 million (2012: £0.7 million) in respect of performance bonds and guarantees entered into in the normal course of business. The Group is subject to claims which arise in the ordinary course of business. Other than those for which provisions have been made and included within note 19, the Directors consider the likelihood of any other claims giving rise to a significant liability to be remote.

30 Capital commitments

£million	2013	2012
Contractual commitments for the purchase of property, plant and equipment	6.7	7.5

31 Operating leases

Operating lease payments charged to the income statement are as follows:

£million	2013	2012
Fixtures and equipment	0.5	0.5
Land and buildings	3.1	3.0

The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

£million	2013	2012
In less than one year	3.2	3.7
Between one and five years	8.6	8.1
After five years	0.9	1.4

Lease terms for land and buildings are predominantly for less than ten years with rents fixed for an average of four years. There are no contingent rents.

32 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.

Key management personnel and Directors' emoluments are disclosed in note 12.

33 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 has 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 Products Innovation in Werne.

Company balance sheet

£million	Note	2013	2012
Fixed assets			
Tangible assets	2	1.6	1.3
Intangible assets	2	4.3	1.3
Investments	3	90.0	91.9
Deferred tax asset	11	4.1	8.4
		100.0	102.9
Current assets			
Debtors	4	155.6	167.0
Cash at bank and in hand		3.9	2.3
		159.5	169.3
Creditors: amounts falling due within one year	5	(31.0)	(24.4)
Net current assets		128.5	144.9
Total assets less current liabilities		228.5	247.8
Pension liability	10	(19.8)	(33.7)
Net assets		208.7	214.1
Capital and reserves			
Called up share capital	6	39.7	39.2
Share premium account	8	1.4	0.7
Profit and loss account	8	167.6	174.2
Shareholders' funds		208.7	214.1

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

Geraint Anderson
Director

Shatish Dasani
Director

Notes to the Company financial statements

1 Significant accounting policies

Basis of preparation

The financial statements of TT Electronics plc (the Company) are presented as required by the Companies Act 2006 and have been prepared under the historical cost convention as modified by the revaluation of financial assets and derivatives held at fair value and the revaluation of investment properties and in accordance with applicable United Kingdom accounting standards and law.

There were no new standards or amendments to existing standards that became effective in the year. Further, there are no new standards or amendments to standards which are issued but not yet effective.

The principal accounting policies are summarised below and have been applied consistently throughout the current and prior year:

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less a provision for depreciation. Depreciation is calculated so as to write-off the cost less estimated residual value of tangible fixed assets, in equal instalments over their expected useful lives. No depreciation is provided on freehold land. The depreciation rates for the major categories of asset are given in note 2 to the consolidated financial statements. The carrying values of fixed assets are reviewed for impairment when there is an indication that the assets may be impaired.

Intangible fixed assets and amortisation

Acquired computer software licences are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the implementation of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets and amortised over a 3 to 5 year period. Capitalised software development expenditure is stated at cost less accumulated amortisation.

Investment properties

Investment property is recorded at open market value as determined by independent valuers. In accordance with the Statement of Standard Accounting Practice (SSAP) 19, depreciation is not provided on investment property on the basis that such property is not held for consumption but for investment. The Directors believe, therefore, that this accounting policy is necessary for the accounts to give a true and fair view.

Changes in the market value of investment properties are not taken to the profit and loss account and are recognised within the revaluation reserve, unless a deficit (or its reversal) on an individual investment property is expected to be permanent, in which case it is charged (or credited) in the profit and loss account of the period.

Investments

Fixed asset investments in subsidiaries are carried at cost less provision for impairment.

Deferred taxation

Deferred taxation is the taxation attributable to timing differences between the results computed for taxation purposes and results as stated in the financial statements. It is recognised on all timing differences where the transaction or event which gives the Company an obligation to pay more tax, or the right to pay less tax in the future, has occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using the rates of tax enacted or substantively enacted at the balance sheet date.

Pension costs

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme deficit is recognised in full with the movement in the scheme deficit being split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

Share-based payments

Certain employees of the Company receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined by an external consultant and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

1 Significant accounting policies (continued)

Leases

Payments under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Own shares held by Employee Benefit Trust

Transactions of the Company-sponsored Employee Benefit Trust are treated as being those of the Company and are therefore reflected in the Company's financial statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

2 Tangible and intangible fixed assets

£million	Intangible assets	Freehold land and buildings	Plant, equipment and vehicles	Total tangible fixed assets
Cost				
At 1 January 2013	1.6	2.9	1.0	3.9
Additions	3.4	–	0.5	0.5
At 31 December 2013	**5.0**	**2.9**	**1.5**	**4.4**
Depreciation				
At 1 January 2013	0.3	2.2	0.4	2.6
Charge for the year	0.4	–	0.2	0.2
At 31 December 2013	**0.7**	**2.2**	**0.6**	**2.8**
Net book value				
At 31 December 2013	**4.3**	**0.7**	**0.9**	**1.6**
At 31 December 2012	1.3	0.7	0.6	1.3

Included within intangible fixed assets are assets under construction with a carrying value of £2.2 million (2012: £nil).

3 Fixed asset investments

£million	Subsidiary undertakings
Cost	
At 1 January and 31 December 2013	**129.4**
Provisions	
At 1 January 2013	37.5
Charge for the year	1.9
At 31 December 2013	**39.4**
Net book value	
At 31 December 2013	**90.0**
At 31 December 2012	91.9

The Company's principal operating subsidiary undertakings and their locations are shown in note 14.

The Company owns 100% of the ordinary share capital or equivalent and 100% of voting rights of all subsidiary undertakings other than Rodco Limited, which is non-trading and is 60% owned. Shareholdings are held indirectly for all principal operating subsidiary undertakings.

Notes to the Company financial statements continued

4 Debtors

£million	2013	2012
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	154.6	163.5
Prepayments and accrued income	1.0	3.3
Taxation and social security	–	0.2
	155.6	167.0

5 Creditors

£million	2013	2012
Amounts falling due within one year		
Trade creditors	3.9	2.6
Amounts owed to subsidiary undertakings	22.0	17.0
Taxation and social security	0.5	0.2
Accruals and deferred income	4.6	4.6
	31.0	24.4

6 Share capital

£million	2013	2012
Issued, called up and fully paid		
158,608,324 (2012: 156,950,664) Ordinary shares of 25p each	39.7	39.2

During 2013 the Company issued 867,400 Ordinary shares on the vesting of the Long Term Incentive Plan awards issued in 2010. The shares were then allocated to award holders via an Employee Benefit Trust for nil consideration. A charge of £0.2 million has been recognised in retained earnings accordingly.

The Company also issued 790,260 Ordinary shares as a result of share options being exercised under the 2004 Approved Plan, 1996 Unapproved Plan (grants made in 2003), 2004 Approved Plan and Unapproved Plan and the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.9 million, which resulted in an increase in share premium of £0.7 million.

7 Share-based payments

Details of share-based payments are shown in note 25 of the Consolidated financial statements.

8 Shareholders' funds

£million	Share capital	Share premium	Profit and loss account
At 1 January 2013	39.2	0.7	174.2
New shares issued	0.5	0.7	(0.2)
Actuarial net gain on defined benefit pension schemes	–	–	9.6
Tax on actuarial amounts in pension deficit movement	–	–	(3.3)
Share-based payments	–	–	(0.1)
Deferred tax on share-based payments	–	–	(0.2)
Dividends paid by the Company	–	–	(8.0)
Loss for the year	–	–	(4.4)
At 31 December 2013	**39.7**	**1.4**	**167.6**

9 Loss for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its profit and loss account for the year. The loss after tax of the Company for the year was £4.4 million (2012: profit of £61.2 million). The Auditor's remuneration for audit services is disclosed in note 7 to the Consolidated financial statements.

10 Pension schemes

Defined benefit scheme

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. 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. Further details of the scheme are provided in note 23 to the Group financial statements.

Defined contribution scheme

The Company operates a Group personal pension plan for employees and pays contributions to administered pension insurance plans. The Company has no further payment obligation once the contributions have been paid. Payments to the defined contribution scheme are charged as an expense as they are incurred. The total contributions charged by the Company including employee salary exchange contributions in respect of the year ended 31 December 2013 were £0.6 million (2012: £0.6 million).

11 Deferred tax

The deferred tax asset of £4.1 million (2012: £8.4 million) is made up of an asset of £4.0 million (2012: £7.7 million) in respect of the pension liability, the movement in which has been recognised in profit (£0.4 million charge) and equity (£3.3 million charge), and an asset of £0.1 million (2012: £0.7 million) in respect of share-based payments, the movement in which has been recognised in profit (£0.4 million charge) and equity (£0.2 million charge).

At 31 December 2013, the Company had the following items for which no deferred tax assets have been recognised:

- Tax losses £23.5 million (2012: £21.5 million); and
- Property, plant and equipment £0.9 million (2012: £0.6 million).

12 Commitments under operating leases

Annual commitments under non-cancellable operating leases were as follows:

£million	Land and buildings	Other	2013 Total	Land and buildings	Other	2012 Total
On leases expiring:						
Within one year	–	–	–	–	–	–
Between two and five years	–	0.1	0.1	0.4	0.1	0.5
	–	0.1	0.1	0.4	0.1	0.5

13 Related party transactions

During 2013 and 2012, the Company did not have any related party transactions other than with wholly owned subsidiaries.

Notes to the Company financial statements continued

14 Principal operating subsidiaries

The principal operating subsidiaries are:

Sensing and Control

AB Elektronik GmbH, Germany

AB Elektronik Sachsen GmbH, Germany

TT Electronics Sensing and Control Private Limited, India

AB Elektronik Sensors (Suzhou) Co Ltd, China

AB Electronic Manufacturing, Mexico

Optek Technology, USA, Mexico

AB Mikroelektronik GmbH, Austria

TT Electronics Sensing and Control SRL, Romania

TT Electronics Technology Ltd

BI Technologies*, USA, Mexico

TT Electronics Asia Pte Ltd*, Singapore

* also conducts Components business

Components

International Resistive Company, USA, Barbados

Semelab Limited

Welwyn Components Limited

AB Connectors Limited

AB Electronics (Suzhou) Co Ltd, China

BI Technologies, Malaysia

Integrated Manufacturing Services

TT Electronics Integrated Manufacturing Services Limited

TT Electronics Integrated Manufacturing Services (Suzhou) Co Ltd, China

TT Electronics Integrated Manufacturing Services Inc, USA

New Chapel Electronics Limited

TT Electronics Integrated Manufacturing Services SRL, Romania

Abtest Ltd

Companies are located and incorporated in the UK except where indicated.

Five-year record

Five-year record

£million (unless otherwise stated)	2013	2012[1]	2011	2010	2009
Revenue	**532.2**	476.9	509.6	555.5	463.5
Operating profit[2]	**30.2**	28.7	28.7	24.9	6.4
Profit before taxation[2]	**29.5**	25.3	24.5	20.6	0.8
Earnings/(loss)[2]	**22.4**	18.6	17.6	13.9	(1.8)
Earnings/(loss) per share (p)[2]	**14.2**	11.9	11.4	9.0	(1.2)
Dividends – paid and proposed	**8.5**	7.8	6.8	4.3	–
Dividend per share – paid and proposed (p)	**5.4**	5.0	4.4	2.8	–
Average number of shares in issue	**157.6**	156.1	154.9	154.8	155.0
Net cash/(debt)	**26.9**	46.7	15.2	(9.9)	(56.9)
Total equity	**203.3**	191.1	191.4	179.1	155.8

Notes

(1) Results for 2012 have been restated for changes arising from the implementation of IAS 19 'Employee Benefits'.

(2) Operating profit, profit before taxation, earnings and earnings per share are stated before exceptional items.

Shareholder information

Annual General Meeting

The Annual General Meeting will be held on 9 May 2014 at 11.30 am at the offices of Hudson Sandler Financial and Corporate Communications, 2nd Floor, 29 Cloth Fair, London EC1A 7NN.

Results

Announcement of 2014 half year results – late August 2014.

Preliminary announcement of 2014 results – mid March 2015.

Annual Report 2014 – to be posted mid April 2015.

Dividends

For the year ending 31 December 2013, the Board has recommended a final dividend of 3.8p per share which will be paid on 5 June 2014 to shareholders on the register on 23 May 2014 (2012: 3.5p). An interim dividend of 1.6p per share was paid on 31 October 2013 (2012: 1.5p).

Multiple accounts on the shareholder register

If you have received two or more copies of this document, this means that there is more than one account in your name on the shareholder register. This may be caused by either your name or address appearing on each account in a slightly different way. For security reasons, the Registrars will not amalgamate the accounts without your written consent. If you would like any multiple accounts combined into one account, please write to Equiniti Limited at the address given below.

Share dealing services

Shareview Dealing is a telephone and internet service provided by Equiniti. It offers a simple and convenient way of buying and selling TT Electronics plc shares.

Log on to www.shareview.co.uk/dealing or call 0845 603 7037 between 8.00 am and 4.30 pm, Monday to Friday (except bank holidays), for more information about this service and for details of the rates and charges. Please note that telephone lines remain open until 6.00 pm for enquiries.

A weekly postal dealing service is also available and a form together with terms and conditions can be obtained by calling 0871 384 2248*. Commission is 1.75 per cent with a minimum charge of £50.

ShareGift

ShareGift is a charity share donation scheme for shareholders, administered by The Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomical to sell on a commission basis. Further information can be obtained at www.sharegift.org or from Equiniti.

Shareholder enquiries

Equiniti maintain the register of members of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone 0871 384 2396* (or +44 121 415 7047 if calling from outside the United Kingdom)

Fax 0871 384 2100*

Textphone for shareholders with hearing difficulties 0871 384 2255*

Equiniti also offer a range of shareholder information on-line at www.shareview.co.uk

* UK calls to 0871 numbers cost 8p per minute plus network extras. Lines are open from 8.30 am to 5.30 pm, Monday to Friday (except bank holidays).

Website

Information on the Group's financial performance, activities and share price is available at www.ttelectronics.com

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