12 June 2014

# VOLEX plc

## Preliminary Announcement of the Group Results for the Financial Year ended 30 March 2014

**'The Volex Transformation Plan is beginning to deliver results'**

Volex plc ('Volex'), the global provider of power and data cabling solutions, today announces its preliminary results for the 52 weeks ended 30 March 2014 ('FY2014').

| Financial Highlights | **52 weeks to 30 March 2014** | 52 weeks to 31 March 2013 |
|---|---|---|
| Revenue | **\$400.2m** | \$473.2m |
| Underlying* operating profit | **\$4.5m** | \$12.3m |
| Statutory operating profit / (loss) | **(\$4.8m)** | \$4.2m |
| Underlying* profit before tax | **\$1.2m** | \$10.1m |
| Basic earnings / (loss) per share | **(23.7c)** | (1.6c) |
| Underlying diluted earnings / (loss) per share | **(9.0c)** | 11.2c |
| Net debt | **\$32.2m** | \$19.5m |

* Before non-recurring items and share-based payments credit / charge

## Summary

- The Volex Transformation Plan ('VTP'), announced in November 2013, now delivering growth and margins ahead of expectation;
- New two divisional structure (Power & Data), ensuring accountability, embedded throughout the Group;
- Revenue decreased due to reduced allocations from customers throughout the Power division and completion of certain infrastructure projects within the Data division;
- Underlying operating profit of \$4.5 million (FY2013: \$12.3 million) with underlying operating costs reduced by \$11.0m or 15% year on year;
- Net debt increased to \$32.2 million primarily due to a change in supplier payment profiles following the decision to move to a multi-sourcing supplier model to improve the Group's cost competitiveness. This increase was partially off-set by \$11.1 million raised in December 2013 through an issue of shares and the sale of treasury shares; and
- Proposed \$30.3 million share issue announced separately today to reduce leverage, facilitate the Group refinancing and to enable the business to complete its transformation plan. 75% of these shares will be underwritten with the remaining 25% taken up by the Group's largest shareholder and certain Directors.

## Outlook

Encouraging progress has been made with the VTP which is delivering revenue growth and is expected to deliver additional cost savings in FY2015. This has been evidenced by:

- Revenue in the first two months of the new financial year is 13 per cent higher than the same period in the previous year;
- Factory loading for the first quarter indicates that revenue for the quarter will be 10 per cent ahead of prior year and 4 per cent ahead of the previous quarter; and
- Gross margins in the first month of the new financial year are better than expected and the order intake in the higher margin product areas provides confidence that this will continue, especially as volumes increase and factory utilisation improves.

The Group expects to be cash generative in the current year after interest, tax and exceptional costs.

## The Chairman of Volex, Karen Slatford, commented:

'The Volex Transformation Plan, which was announced in November 2013, is working. The increased focus on delivering to our customers' needs has had a positive impact on our order intake. At the same time, progress that is being made with our supplier base and productivity improvements are leading to margins ahead of our expectations.

The combination of the proposed share issue and associated refinancing of the Group's debt facility is expected to reduce leverage, secure longer term financial flexibility and enable the business to complete its transformation plan.

Whilst there remains much to do, we are confident that we have the right strategy to make good progress in the current financial year providing the Group with a firm foundation for future growth'.

The Company will be presenting its full year results at 09.30 on Thursday 12 June 2014.

For further information please contact:

**Volex plc**

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**Forward looking statements**

Certain statements in this announcement are forward-looking statements which are based on Volex's expectations, intentions and projections regarding its future operating performance and objectives, anticipated events or trends and other matters that are not historical facts. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'could', 'may', 'should', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates'. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, by way of example only and not limited to, general economic conditions, currency fluctuations, competitive factors, the loss of one of our major competitors, failure of one or more major suppliers and changes in raw materials or labour costs among other risks. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date of such statements and, except as required by applicable law, Volex undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

## Chairman's Statement

As anticipated, the results for the year to 30 March 2014 are disappointing as we undertook a process of fundamental renewal. We have rebuilt the senior management team and the Board. Christoph Eisenhardt, CEO of Volex, and his new executive team have developed a clear vision for the business and are firmly positioning the Group on a renewed growth trajectory.

**Financial performance**

Revenue reduced by 15.4% from $473.2 million to $400.2 million while underlying operating profit fell to $4.5 million (FY2013: $12.3 million). This downturn is largely attributed to a failure to adapt our strategy to meet the requirements of our core customers within the power cord market. Whilst our customers were anticipating us continuously improving our supply chain to remain cost competitive, we were looking to achieve improved operating margins through higher customer pricing. As a result, we suffered from reduced business allocations.

The new executive team has realigned our strategy in accordance with the very specific expectations of our Power and Data customers whilst looking to leverage Volex's market differentiating strengths such as its high quality and reliability standards, its global sales and manufacturing footprint and its strong brand recognition. Our sales, engineering, manufacturing and purchasing teams are working together to ensure that we better meet customer product specifications through implementation of a rigorous and increasing localised "design-to-cost" methodology. It is pleasing to report that the new strategy is having an immediate effect with revenues for the second half of FY2014 up 3.6% on the first half, contrary to the historic seasonality of the business.

The transformation of the business has necessitated a wider-ranging restructuring of the Group than envisaged which has resulted in higher exceptional costs than initially expected. In FY2014 we have incurred $8.6 million (FY2013: $7.2 million) of non-recurring restructuring spend. Included within the $8.6 million are the severance packages for the outgoing executive management, recruitment fees for the new senior management team, right-sizing costs of certain sites, other targeted redundancies and associated costs plus a retention bonus of $1.0m payable to high performing operational staff necessary for the completion of the VTP. We expect further restructuring costs in FY2015, albeit at a greatly reduced level.

Additionally we have incurred $1.6 million (FY2013: $nil) of exceptional professional fees and banking costs in relation to financing. During the year, the Group has explored a number of alternate financing opportunities to ensure that sufficient funds are available to complete the transformation plan and return the Group to growth. Further exceptional provisions have been charged in the year in relation to sales tax disputes in our emerging markets and onerous lease charges. Off-setting these costs is a $0.6 million (FY2013: $nil) non-recurring refund of finance costs.

As a result of the disappointing trading performance in the year coupled with the high level of exceptional expenditure, the loss before tax for the year is $7.6 million (FY2013: profit of $1.9 million). Following a tax charge of $6.6 million (FY2013: $2.8 million), arising principally from the write-off of deferred tax assets, the loss after tax for the year is $14.2 million (FY2013: $0.9 million). This has resulted in a statutory loss per share of 23.7 cents (FY2013: 1.6 cents).

During the year, we raised $6.3 million from the sale of treasury shares and $4.8 million from a share placing. Off-setting this inflow was a $21.4 million free cash outflow (FY2013: $20.7 million) due not only to the exceptional, non-recurring spend of $7.5 million (FY2013: $6.9 million) but also due to a change in supplier payment profiles following a strategic decision to move to a multi-sourcing supplier model. As a result net debt at the end of the year was $32.2 million (FY2013: $19.5 million).

Due to the disappointing trading performance and the increased net debt, the Board has decided that it is prudent not to declare a full year dividend for the current year.

Post year end the Group will issue 24,067,171 new shares for a gross consideration of $30.3 million. 75% of the shares will be underwritten with the remaining 25% being taken up by the Group's largest shareholder and certain Directors. The issuance of these shares will be subject to approval by a simple majority of those voting at a general meeting on 1 July 2014. The Company has irrevocable commitments to vote in favour of the resolutions to issue the shares at that meeting from shareholders holding 26% of the Group's share capital.

**Board Changes**

During the last year the Board has changed significantly. Full details of these appointments and the involvement of each individual on the various Committees of the Board have been separately announced.

The whole Board is very closely involved with developing the revised strategy for the Group and is actively supporting the management team to help to deliver the enhanced shareholder returns that will result.

I am pleased to announce that Chief Executives have now been appointed to both divisions with Allan Lam joining us in Singapore as the Power Division CEO and Matthew Becker joining us in the US as the Data Division CEO. Both bring with them a wealth of experience and are actively engaged in implementing the new strategy.

**Business Transformation**

As previously announced in November 2013, the VTP has been initiated and is focused upon:

- increasing customer focus with a more customer and market specific product offering;
- increasing operational efficiency with an emphasis upon design-to-cost manufacturing; and
- improving supply chain management.

Volex has always worked with Tier 1 Global customers and has built a reputation for delivering high specification, high quality products. As part of the VTP, the Group is forming relationships with major new customers and is winning an increasing share of allocations with existing customers. As a result, we are seeing revenue growth as we start our new financial year.

**People**

I would like to take this opportunity to thank all the employees of the Group for their hard work and dedication during what has been a period of change. It is gratifying to see that their focus upon delivering customer satisfaction is leading to tangible results.

**Outlook Statement**

Encouraging progress has been made with the VTP which is delivering revenue growth and is expected to deliver additional cost savings in FY2015. This has been evidenced by:

- Revenue in the first two months of the new financial year is 13 per cent higher than the same period in the previous year;
- Factory loading for the first quarter indicates that revenue for the quarter will be 10 per cent ahead of prior year and 4 per cent ahead of the previous quarter; and
- Gross margins in the first month of the new financial year are better than expected and the order intake in the higher margin product areas provides confidence that this will continue, especially as volumes increase and factory utilisation improves.

The Group expects to be cash generative in the current year after interest, tax and exceptional costs.

The combination of the proposed share issue and associated refinancing of the Group's debt facility is expected to reduce leverage, secure longer term financial flexibility and enable the business to complete its transformation plan.

Whilst there remains much to do, we are confident that we have the right strategy to make good progress in the current financial year providing the Group with a firm foundation for future growth.

## Operational Review

| $'000 | 52 weeks ending | | |
|---|---|---|---|
| | 1 April 2012 | 31 March 2013 | 30 March 2014 |
| **Revenue** | | | |
| Power | 332,636 | 323,056 | 265,384 |
| Data | 185,133 | 150,098 | 134,793 |
| | 517,769 | 473,154 | 400,177 |
| **Underlying* gross profit** | | | |
| Power | 60,406 | 48,534 | 34,453 |
| Data | 42,113 | 36,741 | 32,026 |
| | 102,519 | 85,275 | 66,479 |
| *Underlying* gross margin* | *19.8%* | *18.0%* | *16.6%* |
| **Underlying* operating profit** | | | |
| Power | 31,818 | 18,827 | 7,258 |
| Data | 17,110 | 12,760 | 12,650 |
| Central costs | (16,924) | (19,245) | (15,376) |
| | 32,004 | 12,342 | 4,532 |
| *Underlying* operating margin* | *6.2%* | *2.6%* | *1.1%* |

* Before non-recurring items and share-based payments credit / charge

Volex is a leading global supplier of power and data cabling solutions with sales of $400.2 million in the year (FY2013: $473.2 million). Volex has its global headquarters in the UK, operates from 9 manufacturing locations and employs approximately 7,000 people (FY2013: 8,600) across 18 countries. Volex sells its products through its own global sales force to Original Equipment Manufacturers (OEMs) and Electronic Manufacturing Services companies.

Following several years of achieving revenue growth through a focus on our larger customers and their higher margin product requirements, the Group experienced a significant downturn in demand in the first half of FY2013. This downturn was due to the Group's failure to identify the intensifying pricing competition in the power cable market with Volex still seeking the higher margins it had experienced in the earlier years while at the same time certain telecoms infrastructure projects, utilising data cables, were drawing to a conclusion. This downturn coupled with the investment in several significant capital expenditure programmes resulted in surplus capacity throughout the Group and a significant fall in operating profits.

To address the declining performance, Volex commenced a restructuring programme in FY2013 which continued throughout FY2014. One of the key elements of the programme was a restructuring of the senior management which was completed in FY2014.

The new executive management team identified that the Group had well established customer relationships, a unique global manufacturing footprint and a dedicated workforce but was failing to capitalise on these strengths.

In order to address this, the business was first reorganised into Power and Data operating divisions. This allowed management to more accurately assess performance and improve resource allocation. Further a Chief Executive Officer and a Chief Financial Officer have been appointed to both divisions to drive accountability.

The executive management team has realigned each division's strategy with the needs of their customers. The revised strategies can be summarised as:

> Power: The market is defined by intense price competition with a relatively short cycle time between price and volume negotiations. By demonstrating its commitment to customer service and price competitiveness, Volex intends to grow its customer allocations. As volumes increase, plant utilisation will improve thus delivering more benefits that can ultimately be shared with the customer.
>
> Data: Whilst price is still a consideration, this market is driven by product innovation and alignment with customer specific technological developments. This requires close collaboration between Volex and its customers, working together on project specific customer programmes over the longer term.

To ensure that the revised strategies are embedded throughout the organisation, the VTP was initiated. The VTP focuses on the following key elements:

- Increased customer focus: Re-organisation of the sales and engineering functions at a regional level to improve relationships with our high quality customer base and to understand better and address evolving customer requirements.

  To this end, the sales teams have been restructured on a regional basis covering Greater China, Asia Pacific, Europe & Middle East and the Americas.

- Design-to-cost manufacturing: In order to meet the pricing requirements of our customers (primarily in the power market) whilst maintaining an acceptable profit margin, the Group has begun a rigorous design-to-cost pricing and manufacturing methodology. Rather than allowing the engineering and supply chain functions to lead the new business quotation process, the sales team is now identifying the required customer-target price and the engineering team and supply team are identifying ways to engineer the product at an acceptable cost.

- Supply chain management: To assist in the design-to-cost manufacturing approach, the Group is significantly changing its supply chain management, moving to a multi-sourcing, localised model rather than having a small number of centralised suppliers. By engaging in pro-active supplier management, it is anticipated that material costs can be significantly reduced.

- Field application engineering: In the Data division, where product development is key, understanding the needs of our customers is of vital importance. To this end, the Group is strengthening the number and quality of customer facing engineers.

Through the successful implementation of the VTP, Volex believes it will be able to deliver on its new strategy and provide sustainable profitable growth.

The immediate priorities of the VTP were to improve the relationships with the customer base and to return the Group to revenue growth. We have already seen the benefits of the close attention that is being paid to this area by the global sales team with revenue in the second half of the financial year up 3.6% on the first half, contrary to the historical trend.

The Power and Data divisional performance is discussed on the following pages. Central costs cover the cost of the Board, the London head office including associated UK listing costs and other functions such as Finance, IT, Legal and HR, which support the Group-wide operations. Central costs totalled $15.4 million in FY2014, down $3.8 million on the $19.2 million incurred in FY2013. This reduction was in part due to the restructuring programme which resulted in the removal of personnel from the central costs and also in part due to tight cost control leading to a reduction in the use of external consultants.

**Divisional review**

Due to the market differences between the power cable and data cable markets, the Group now operates and reports under a two divisional structure: the Power Division and the Data Division. This will allow better focus on customer relationships as well as enhancing the Group's emphasis upon accountability and profitability.

**Power Division**

| **$'000** | **52 weeks ending** | | |
|---|---|---|---|
| | **1 April 2012** | **31 March 2013** | **30 March 2014** |
| Revenue | 332,636 | 323,056 | 265,384 |
| Underlying* gross profit | 60,406 | 48,534 | 34,453 |
| *Underlying* gross margin* | *18.2%* | *15.0%* | *13.0%* |
| Operating costs | (28,588) | (29,707) | (27,195) |
| Underlying* operating profit | 31,818 | 18,827 | 7,258 |
| *Underlying* operating margin* | *9.6%* | *5.8%* | *2.7%* |

* Before non-recurring items and share-based payments credit / charge

Volex designs and manufactures power cords that are sold to manufacturers of a broad range of electrical and electronic devices and appliances. Volex products are used in laptops, PCs and tablets, printers, TVs, games consoles, power tools, kitchen appliances and vacuum cleaners. Volex is the second largest global power cable supplier with management estimating an 8 per cent market share in a fragmented market.

The market for power cords is highly competitive with customers implementing multi-sourcing strategies and demanding productivity improvements and price reductions over the product lifecycle. In order to compete effectively suppliers in the market require efficient large scale production facilities in low cost regions. Volex is ideally positioned to deliver on this requirement due to its well-invested, global manufacturing footprint.

The Power Division has its divisional head office in Singapore, close to its customer base and manufacturing facilities. The key manufacturing facilities are located in South-East China, Indonesia, Mexico, India and also in Brazil. However, all the Group's facilities throughout the world can be utilised to manufacture power cable products with facilities not being wholly product specific.

Revenue for FY2014 was $265.4 million, down 17.9% on the prior year (FY2013: $323.1 million). This reduction in revenue was due to the challenging market conditions with significant price competition at a time when the Group's focus was upon improving operating margins, leading to decreased allocations from our customers.

In the second half of FY2014, through the implementation of a revised strategy and the VTP, significant steps have been taken towards re-establishing revenue growth within our Power Division through improving relations with all our major customers and potential new customers. This has involved dedicated sales and engineering teams working alongside the customers on a daily basis to understand their needs as they arise.

Encouragingly we have already begun to see the benefits of the new strategy with the second half revenue 6.9% up on the first half. This is in contrast to the historic seasonality seen in the business in which the stocking up for the Holiday Season leads to the first half revenues traditionally being stronger than the second.

The underlying gross margin has reduced from 15.0% in FY2013 to 13.0% in FY2014. This is in part due to the deleveraging effect of reduced revenues over a fixed cost of production and in part due to the time lag of raw material cost reductions arising from the new design-to-cost methodology. As volumes continue to grow and factory utilisation is increased, we envisage the gross margin recovering.

Our ongoing cost reduction programme has mitigated some of the gross margin decline with a number of direct and indirect production personnel removed from the organisation. This same cost reduction programme has also helped reduce the Division’s underlying operating costs from $29.7m in FY2013 to $27.2m in FY2014 despite certain manufacturing countries experiencing significant wage inflation.

Looking forward, we are seeing the benefits of the VTP with significant new business wins in Brazil and China. In Brazil, the Group has entered into a service and supply agreement with Cielo, the country’s largest credit and debit card operator. In advance of the World Cup and Olympics, Cielo wanted a valued partner to support and service their “Point of Sale Card Reading” machine chargers. With cable failure being one of the most common complaints, they chose Volex due to its cost competitiveness and reputation for reliability. In China, we have strengthened our relationship with Xiaomi, one of China's leading and fastest growing mobile internet companies. Production and delivery of power cables for its new audio visual product range is due to commence in FY2015 with the Group beating rival offers due to its reputation for manufacturing high quality products and supplier reliability.

As we continue to roll-out our design-to-cost manufacturing methodology and begin to see the benefits from our multi-source supplier arrangements, we will further improve our price competitiveness, leading to new business through increased allocations from our customers. The clear emphasis by our customers on cost reduction and price competitiveness means that any business involved in this market needs to benefit from economies of scale and Volex is ideally positioned within its competitive and geographic landscape to deliver on this advantage. Our high quality, Tier 1 customer base and its products have in recent years been a driver for growth within Volex and there is no reason why this should not be the case again in the future.

## Data Division

| $'000 | 52 weeks ending | | |
|---|---|---|---|
| | **1 April 2012** | **31 March 2013** | **30 March 2014** |
| Revenue | 185,133 | 150,098 | 134,793 |
| Underlying* gross profit | 42,113 | 36,741 | 32,026 |
| *Underlying* gross margin* | *22.7%* | *24.5%* | *23.8%* |
| Operating costs | (25,003) | (23,981) | (19,376) |
| Underlying* operating profit | 17,110 | 12,760 | 12,650 |
| *Underlying* operating margin* | *9.2%* | *8.5%* | *9.4%* |

* Before non-recurring items and share-based payments credit / charge

Volex designs and manufactures a broad range of cables and connectors (ranging from high speed copper cables to complex customised optical cable assemblies) that transfer electronic, radio-frequency and optical data. Volex products are used in a broad range of applications including data networking equipment, data centres, wireless base stations and cell site installations, mobile computing devices, medical equipment, factory automation, vehicle telematics, agricultural equipment and alternative energy generation.

Volex competes by producing highly engineered, high performance, application specific data cables, in close collaboration with its customers. Focusing on this approach leads to products with longer lifecycles and less pricing pressure when compared to standard power products.

The Data Division is headquartered in the US with manufacturing facilities supplying product from Mexico, Brazil, Europe, India and China, all within close proximity to many existing and potential new customers. It operates in a fragmented market that is growing rapidly and Volex has several strong niche positions within data centres and the telecoms and healthcare sectors where customers utilise Volex expertise and manufacturing competencies.

Revenue for FY2014 was $134.8 million (FY2013: $150.1 million), down 10.2% on the prior year. This was primarily due to a decline in revenue from our key telecoms customers arising from completion of 4G infrastructure roll out projects in the US and Japan from which we had benefitted in FY2013, whilst certain other regional deployments were delayed. Furthermore, we experienced significant pricing pressure from our European telecoms customers as they themselves suffered from intense market competition from their Asian counterparts. Off-setting the decline in telecoms revenue, we saw strong growth in revenue from our healthcare customers with our largest healthcare customer's revenue up 21% year on year. This was due to strong MRI cable sales following a collaborative development project over the past two years.

The leading edge technologies that our customers employ mean that there are constant uncertainties involved with the speed at which new programmes are launched. Delivery timescales of new projects such as 4G roll-out and the above MRI scanner project can have a significant impact upon call off schedules for our data cable products.

Despite the revenue reduction, the underlying gross profit margin within the division remained strong at 23.8% (FY2013: 24.5%).

In terms of operating costs, the benefit of the ongoing cost reduction programme can be evidenced from the reduction in operating costs from $24.0m in FY2013 to $19.4m in FY2014, a fall of 19.2%.

During FY2014, we have continued to develop our Active Optical Cable ('AOC') technology. As previously announced, we have encountered certain production delays. However, we continue to believe that the technology offers the potential for future profitable growth.

Looking forward we expect the roll-out of 4G mobile phone technology in China to be a driver of growth. As noted above, in recent years the Group has established a strong presence as a supplier to the expanding 4G mobile market as the new standard was introduced in territories such as the US. Volex supplies data cabling systems for the mobile phone base station masts, each of which requires up to 70 cables. Strong relationships with the leading OEM suppliers in China is resulting in an increased order book in preparation of the roll-out.

The rapidly increasing demand for faster access to more data is driving new technologies with higher performance and increased scalability. The OEM customers that Volex serves recognise that the limiting factor for data throughput is the connectivity within data centres and other high technology environments. This is leading them towards the critical “design-to-spec” capabilities that Volex can deliver. Our niche position within this market means that we can deliver advanced products in line with our customers’ price expectations.

**Financial Review**

The core operations of the business form a strong foundation for future growth. Despite the operational setbacks that have been experienced, the business continues to deliver underlying operating profits and is supported by a strong customer base which recognises the quality of its products in a demanding, cost driven environment.

| | 31 March 2013 | | 30 March 2014 | |
|---|---|---|---|---|
| | **Revenue** **$'000** | **Operating profit / (loss) $'000** | **Revenue** **$'000** | **Operating profit / (loss) $'000** |
| Power Division | 323,056 | 18,827 | 265,384 | 7,258 |
| Data Division | 150,098 | 12,760 | 134,793 | 12,650 |
| Unallocated central costs | | (19,245) | | (15,376) |
| Divisional results | **473,154** | **12,342** | **400,177** | **4,532** |
| Non-recurring operating items | | (7,966) | | (11,642) |
| Share-based payments | | (181) | | 2,288 |
| Operating profit / (loss) | | 4,195 | | (4,822) |
| Net finance costs | | (2,269) | | (2,740) |
| Profit / (loss) before tax | | 1,926 | | (7,562) |
| Taxation | | (2,813) | | (6,613) |
| Profit / (loss) after tax | | (887) | | (14,175) |
| Basic earnings / (loss) per share: | | | | |
| Statutory | | (1.6) cents | | (23.7) cents |
| Underlying | | 11.4 cents | | (9.0) cents |

Commentary on the trading performance of the Group is included in the divisional assessment within the Operational Review, above.

**Non-recurring operating items and share-based payments**

The Group has incurred non-recurring operating costs of $11.6 million in FY2014 (FY2013: $8.0 million). In addition a $0.6 million interest refund was received in FY2014 (FY2013: $nil) in relation to interest overpayments in earlier periods. This refund has been shown within net finance costs above.

The largest component of the non-recurring operating costs is in relation to the ongoing restructuring programme. This programme has yielded one-off costs in FY2014 of $8.6 million (FY2013: $7.2 million). The restructuring programme can be split into an executive and senior management change element and an operational element.

The executive and senior management change element includes the change of Chief Executive Officer, Chief Financial Officer, Company Secretary and certain non-executive directors, the termination of the Chief Operating Officer position and the recruitment of the new divisional heads and a new HR director. In total, this has generated a non-recurring charge of $4.9 million (FY2013: $1.2 million) which includes joining bonuses of $0.3 million.

The operational element includes the closure of our North America administrative centre, further reductions in our direct and indirect manufacturing headcount, the removal of certain middle management roles throughout the organisation and costs associated with right-sizing certain operations. In total, this has generated a non-recurring charge of $3.7 million (FY2013: $6.0 million) which also includes a retention bonus for key operational staff of $1.0 million.

The restructuring programme is expected to continue into FY2015 as the new executive team seek to implement and further embed their new strategy, however, at a significantly reduced cost.

During FY2014 the Group has explored a number of alternate financing opportunities to ensure that sufficient funds are available for it to complete its transformation plan and return the Group to growth. This has cost the Group $1.6 million (FY2013: $nil) which includes $0.2 million for bonuses due to key finance personnel involved in the financing review.

The Group has in addition taken a $0.8 million charge in FY2014 in relation to penalty claims made against the Group for historic sales tax claims. In India, the local tax authorities have lodged penalty and interest claims totalling $0.8 million for alleged errors in the reporting of our sales tax position in periods to August 2011. Volex disputes these claims and will appeal against them. However, experience indicates the difficulty in reclaiming prepaid penalty sums.

The Group has increased its onerous lease provision held against two properties resulting in an exceptional charge of $0.6 million (FY2013: credit of $0.4 million). Assumptions made in the calculation of these two provisions have been updated by our property advisors resulting in the FY2014 charge.

The cash impact of the above non-recurring operating items is $7.5 million (FY2013: $6.9 million).

Off-setting the non-recurring charges above is a $2.3 million credit (FY2013: charge of $0.2 million) arising from share-based payments. With a number of executives, senior management and middle management leaving the Group during the year, share options held lapsed, resulting in a reversal of the share-based payment expense accrued in prior periods.

**Tax**

The Group incurred a tax charge of $6.6 million (FY2013: $2.8 million) representing an effective tax rate (ETR) of -87%. The underlying tax charge of $6.6 million (FY2013: $3.6 million) represents an ETR of 533% (FY2013: 36%).

The principal reasons for the increase in ETR is as a result of a $3.7 million write back of deferred tax assets plus Volex operations in certain territories being required to recognise a minimum level of profit regardless of overall Group performance, resulting in a $2.1 million current tax charge.

Due to the reduced level of taxable profits in certain territories there is less certainty over the future use of carried forward tax losses. This has resulted in a significant write-back of deferred tax assets in relation to losses. As at the reporting date the Group has recognised a deferred tax asset in relation to tax losses of $0.4 million (FY2013: $4.3 million).

Management anticipates future improvements in ETR as the Group's overall performance improves.

**Dividends**

At the Volex plc Annual General Meeting held on 22 July 2013, the shareholders approved the proposed final dividend for FY2013 of 3.0 cents per share. At the same meeting a Scrip Dividend Scheme was also approved which gave shareholders the right to elect to receive new ordinary shares in the Company (credited as fully paid) instead of a cash dividend.

Payment of the final dividend in respect of the year ended 31 March 2013 was made on 17 October 2013. 59.1% of the shareholder base eligible for dividends had elected for the Scrip Dividend Scheme resulting in a cash payment of $732,000 and 566,467 new shares being issued.

No final dividend is proposed in respect of the year ended 30 March 2014.

**Cash flow and net debt**

Operating cash flow before movements in working capital in FY2014 was an inflow of $0.5 million (FY2013: $8.8 million) with the $8.3 million reduction primarily due to the reduced operating profit.

The impact of working capital movements on the cash flow on FY2014 was an outflow of $8.7 million (FY2013: inflow of $3.2 million). This was principally due to a change in supplier payment profiles following a strategic decision to move to a multi-sourcing supplier model that will enable the Group to become more cost competitive.

After aggregate outflows for tax and interest of $2.9 million (FY2013: $5.6 million), the net cash outflow from operating activities was $11.1 million (FY2013: net cash generated was $6.4 million). Of this $7.5 million (FY2013: $6.9 million) had been spent on operating non-recurring items.

Capital expenditure in FY2014 was $8.2 million (FY2013: $24.9 million). The significant reduction reflected the completion in FY2013 of two large facility improvement projects in Asia and a further factory upgrade in Brazil. The current period spend is largely in relation to machinery and tooling specifically required for new business wins and opportunities.

Expenditure in relation to intangible assets of $2.3 million has been incurred in FY2014 (FY2013: $2.6 million). Of this $2.0 million is in relation to Active Optical Cable ('AOC') technologies (FY2013: $1.7 million). In the prior year $1.5 million was spent on the acquisition of the AOC patents, after which $0.2 million was spent on developing the technology into commercial products. During the current year, a further $2.0 million has been spent on development with samples now available for distribution to customers. The remaining $0.3 million (FY2013: $0.9 million) was in relation to computer software purchases with the prior year representing significant spend on engineering design software.

Transactions in treasury shares generated $6.3 million (FY2013: $0.4 million) in the year with 3,378,582 treasury shares sold in December 2013. As a result of the restructuring programme, a large number of share options lapsed during the year. As a consequence, 3,378,582 treasury shares held were surplus to requirements. In December 2013, this surplus was sold on the open market.

The final dividend for FY2013 of 3.0 cents per share was paid in the year. A script dividend alternative had been offered with 59.1% of the shareholder base eligible for dividends electing for the Scrip Dividend Scheme. As a result a cash payment of $0.7 million (FY2013: $1.7 million) was made. No interim dividend for FY2014 was paid (FY2013: $1.1 million).

In December 2013, Volex issued 2,698,009 shares at £1.16 per share. After the deduction of issue costs, this generated $4.8 million for the Group.

During the year $7.0 million of USD denominated loans were repaid by the Group under the senior credit facility and replaced with €6.0 million of Euro denominated loans.

As a result of the above cash flows, the Group incurred a $9.9 million (FY2013: $17.2 million) cash outflow for the year. As at 30 March 2014, the Group held net debt of $32.2 million compared with $19.5 million at 31 March 2013.

**Banking facilities, covenants and going concern**

The Group utilises a $75 million multi-currency combined revolving credit, overdraft and guarantee facility ('RCF'). This facility is provided by a syndicate of three banks (Lloyds Banking Group plc, HSBC Bank plc and Clydesdale plc).

The key terms of the facility are as follows:

- available until 15 June 2015;
- no scheduled facility amortisation; and
- interest cover and net debt:EBITDA leverage covenants.

As at 30 March 2014, amounts drawn under the facility totalled $46.4 million (FY2013: $45.4 million). After accounting for bonds, guarantees and letters of credit, the remaining headroom as at 30 March 2014 was $28.2 million (FY2013: $26.5 million).

Under the terms of the facility, the two covenant tests above must be performed at each quarter end date. At year end both covenants are met. Breach of these covenants would have resulted in cancellation of the facility.

Due to the relatively short period after the year end until expiry of the facility and also the combination of the high level of non-recurring items incurred during the year and the lower level of profitability than initially anticipated, it became necessary during the year and subsequent to year end for the Group to hold extensive discussions with its bankers. The result of these discussions was that the financial covenants referred to above were initially adjusted to allow for the poor trading that the Group was experiencing at that time. The costs of agreeing these adjustments are reflected as a non-recurring item in the accounts.

Subsequent to year end, renewed facilities sized at $45.0 million have been agreed conditional only upon the raising of $25.0 million (net of issue costs) from the sale of shares as detailed below. This $45.0 million facility extends through to 15 June 2017. The financial covenants that are associated with these facilities are based upon the same criteria as the previous agreement but also reflect the latest financial forecasts for the Group with a suitable degree of headroom incorporated.

In addition to the extended banking facilities, the Group will issue 24,067,171 new shares for a gross consideration of $30.3 million. 75% of the shares will be underwritten with the remaining 25% being committed shares taken up by the Group's largest shareholder and certain directors. The issuance of these shares will be subject only to approval by a simple majority of those voting at a general meeting on 1 July 2014. The Company has irrevocable commitments to vote in favour of the resolutions to issue the shares at that meeting from shareholders holding 26% of the Group's share capital.

Given the above, the Group's forecast and projections, taking reasonable account of possible changes in trading performance, show that the Group should operate within the level of the proposed facility for the foreseeable future and should comply with covenants over this period. The Group also has access to and uses additional uncommitted facilities. Further the Group has a number of mitigating actions available to it should actual performance fall below the current financial forecasts. The Directors have the financial controls and monitoring available to them to put in place those mitigating actions in a timely fashion if they see the need to do so. The Directors therefore believe that the Group is well placed to manage its business within its covenants.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from the date of these accounts. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

## Consolidated Income Statement

For the 52 weeks ended 30 March 2014 (52 weeks ended 31 March 2013)

| | | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|---|
| | | **Before non-recurring items and share-based payments** | **Non-recurring items and share-based payments** | **Total** | Before non-recurring items and share-based payments | Non-recurring items and share-based payments | Total |
| | Notes | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 |
| **Revenue** | 2 | **400,177** | **-** | **400,177** | 473,154 | - | 473,154 |
| Cost of sales | | **(333,698)** | **(457)** | **(334,155)** | (387,879) | (2,104) | (389,983) |
| Gross profit | | **66,479** | **(457)** | **66,022** | 85,275 | (2,104) | 83,171 |
| Operating expenses | | **(61,947)** | **(8,897)** | **(70,844)** | (72,933) | (6,043) | (78,976) |
| **Operating profit / (loss)** | 2 | **4,532** | **(9,354)** | **(4,822)** | 12,342 | (8,147) | 4,195 |
| Finance income | | **100** | **-** | **100** | 141 | - | 141 |
| Finance costs | | **(3,392)** | **552** | **(2,840)** | (2,410) | - | (2,410) |
| Profit / (loss) on ordinary activities before taxation | | **1,240** | **(8,802)** | **(7,562)** | 10,073 | (8,147) | 1,926 |
| Taxation | 4 | **(6,613)** | **-** | **(6,613)** | (3,605) | 792 | (2,813) |
| **Profit / (loss) for the period attributable to the owners of the parent** | | **(5,373)** | **(8,802)** | **(14,175)** | 6,468 | (7,355) | (887) |
| **Earnings / (loss) per share (cents)** | | | | | | | |
| Basic | 5 | **(9.0)** | | **(23.7)** | 11.4 | | (1.6) |
| Diluted | 5 | **(9.0)** | | **(23.7)** | 11.2 | | (1.6) |

## Consolidated Statement of Comprehensive Income

For the 52 weeks ended 30 March 2014 (52 weeks ended 31 March 2013)

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| **Profit / (loss) for the period** | **(14,175)** | (887) |
| | | |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Actuarial gain / (loss) on defined benefit pension schemes | **268** | (755) |
| Tax relating to items that will not be reclassified | **-** | - |
| | **268** | (755) |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Gain / (loss) on hedge of net investment taken to equity | **1,855** | (2,256) |
| Gain / (loss) arising on cash flow hedges during the period | **(554)** | (1,868) |
| Exchange gain / (loss) on translation of foreign operations | **(4,478)** | 1,823 |
| Tax relating to items that may be reclassified | **-** | - |
| | **(3,177)** | (2,301) |
| **Other comprehensive income / (loss) for the period** | **(2,909)** | (3,056) |
| **Total comprehensive income / (loss) for the period attributable to the owners of the parent** | **(17,084)** | (3,943) |

## Consolidated Statement of Financial Position

| As at 30 March 2014 (31 March 2013) | Notes | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | **3,210** | 2,932 |
| Other intangible assets | | **5,445** | 4,147 |
| Property, plant and equipment | | **38,732** | 39,691 |
| Other receivables | | **795** | 605 |
| Deferred tax asset | | **488** | 4,732 |
| | | **48,670** | 52,107 |
| **Current assets** | | | |
| Inventories | | **39,987** | 43,016 |
| Trade receivables | | **67,044** | 73,026 |
| Other receivables | | **11,138** | 10,829 |
| Current tax assets | | **480** | 1,414 |
| Cash and bank balances | 9 | **13,675** | 25,044 |
| | | **132,324** | 153,329 |
| **Total assets** | | **180,994** | 205,436 |
| **Current liabilities** | | | |
| Borrowings | 9 | **-** | 1,255 |
| Trade payables | | **57,220** | 73,184 |
| Other payables | | **22,184** | 24,880 |
| Current tax liabilities | | **5,793** | 5,924 |
| Retirement benefit obligation | | **659** | 585 |
| Provisions | 10 | **3,966** | 2,266 |
| Derivative financial instruments | | **1,020** | 399 |
| | | **90,842** | 108,493 |
| **Net current assets / (liabilities)** | | **41,482** | 44,836 |
| **Non-current liabilities** | | | |
| Borrowings | 9 | **45,895** | 43,289 |
| Other payables | | **243** | 575 |
| Deferred tax liabilities | | **1,995** | 1,789 |
| Retirement benefit obligation | | **2,575** | 3,039 |
| Provisions | 10 | **2,719** | 2,605 |
| | | **53,427** | 51,297 |
| **Total liabilities** | | **144,269** | 159,790 |
| **Net assets** | | **36,725** | 45,646 |
| **Equity attributable to owners of the parent** | | | |
| Share capital | | **29,662** | 28,180 |
| Share premium account | | **7,122** | 2,586 |
| Non-distributable reserves | | **2,455** | - |
| Hedging and translation reserve | | **(9,730)** | (6,553) |
| Own shares | | **(1,103)** | (4,945) |
| Retained earnings / (losses) | | **8,319** | 26,378 |
| **Total equity** | | **36,725** | 45,646 |

# Consolidated Statement of Cash Flows

For the 52 weeks ended 30 March 2014 (52 weeks ended 31 March 2013)

| | Notes | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|---|
| **Net cash generated from / (used in) operating activities** | 8 | **(11,067)** | 6,365 |
| **Cash flow generated from / (used in) investing activities** | | | |
| Interest received | | **100** | 141 |
| Proceeds on disposal of intangible assets, property, plant & equipment | | **44** | 263 |
| Purchases of property, plant & equipment | | **(8,157)** | (24,860) |
| Purchases of intangible assets | | **(2,278)** | (2,567) |
| Sale / purchase of own shares (net of funds received on option exercise) | | **6,281** | 359 |
| **Net cash generated / (used in) investing activities** | | **(4,010)** | (26,664) |
| **Cash flows before financing activities** | | **(15,077)** | (20,299) |
| Cash generated / (used) before non-recurring items | | **(7,623)** | (13,405) |
| Cash utilised in respect of non-recurring items | | **(7,454)** | (6,894) |
| **Cash flow generated from / (used in) financing activities** | | | |
| Dividends paid | | **(732)** | (2,813) |
| Proceeds on issue of shares | | **4,804** | - |
| Repayment of borrowings | 9 | **(7,000)** | - |
| New bank loans raised | 9 | **8,082** | 6,000 |
| Repayments of obligations under finance leases | 9 | **-** | (117) |
| **Net cash generated from / (used) in financing activities** | | **5,154** | 3,070 |
| **Net increase / (decrease) in cash and cash equivalents** | | **(9,923)** | (17,229) |
| **Cash and cash equivalents at beginning of period** | 9 | **23,789** | 41,180 |
| Effect of foreign exchange rate changes | 9 | **(191)** | (162) |
| **Cash and cash equivalents at end of period** | 9 | **13,675** | 23,789 |

## Consolidated Statement of Changes in Equity

For the 52 weeks ended 30 March 2014 (52 weeks ended 31 March 2013)

| | Share capital | Share premium account | Non-distributable reserves | Hedging and translation reserve | Own shares | Retained earnings / (losses) | Total equity |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 April 2012** | **28,180** | **2,586** | **-** | **(4,252)** | **(5,271)** | **30,069** | **51,312** |
| Profit / (loss) for the period attributable to the owners of the parent | - | - | - | - | - | (887) | (887) |
| Other comprehensive income / (loss) for the period | - | - | - | (2,301) | - | (755) | (3,056) |
| Total comprehensive income / (loss) for the period | - | - | - | (2,301) | - | (1,642) | (3,943) |
| Dividends | - | - | - | - | - | (2,813) | (2,813) |
| Own shares utilised in the period | - | - | - | - | 326 | 33 | 359 |
| Reserve entry for share option charge / credit | - | - | - | - | - | 731 | 731 |
| **Balance at 31 March 2013** | **28,180** | **2,586** | - | **(6,553)** | **(4,945)** | **26,378** | **45,646** |
| Profit / (loss) for the period attributable to the owners of the parent | - | - | - | - | - | (14,175) | (14,175) |
| Other comprehensive income / (loss) for the period | - | - | - | (3,177) | - | 268 | (2,909) |
| Total comprehensive income / (loss) for the period | - | - | - | (3,177) | - | (13,907) | (17,084) |
| Issue of share capital | 1,090 | 3,714 | - | - | - | - | 4,804 |
| Dividends | 228 | 822 | - | - | - | (1,723) | (673) |
| Own shares sold or utilised in the period | - | - | 2,455 | - | 3,842 | (17) | 6,280 |
| Exercise of Non-Executive Long Term Incentive Scheme | 164 | | | | | (258) | (94) |
| Reserve entry for share option charge / credit | - | - | | - | - | (2,154) | (2,154) |
| **Balance at 30 March 2014** | **29,662** | **7,122** | **2,455** | **(9,730)** | **(1,103)** | **8,319** | **36,725** |

## 1. Basis of preparation

The preliminary announcement for the 52 weeks ended 30 March 2014 has been prepared in accordance with the accounting policies as disclosed in Volex plc's Annual Report and Accounts 2013, as updated to take effect of any new accounting standards applicable for the period as set out in Volex plc's Interim Statement 2013.

The annual financial information presented in this preliminary announcement for the 52 weeks ended 30 March 2014 is based on, and is consistent with, that in the Group's audited financial statements for the 52 weeks ended 30 March 2014, and those financial statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The independent auditors' report on those financial statements is unqualified and does not contain any statement under section 498 (2) or 498 (3) of the Companies Act 2006.

Information in this preliminary announcement does not constitute statutory accounts of the Group within the meaning of section 434 of the Companies Act 2006. The full financial statements for the Group for the 52 weeks ended 31 March 2013 have been delivered to the Registrar of Companies. The independent auditor's report on those financial statements was unqualified and did not contain a statement under section 498 (2) or 498 (3) of the Companies Act 2006.

**Going concern**

The key terms of the Group's revolving credit facility, through which it will meet its day to day working capital requirements, are shown in Note 7. This facility is available until June 2015 and requires quarterly covenant tests to be performed in relation to leverage and interest cover.

Due to the relatively short period after the year end until expiry of the facility and the combination of a high level of non-recurring items and a lower level of profitability than initially anticipated, it became necessary during the year and subsequent to year end for the Group to hold extensive discussions with its bankers. The result of these discussions was that the financial covenants referred to above were initially adjusted to allow for the poor trading that the Group was experiencing at that time. The costs of agreeing these adjustments are reflected as non-recurring items in Note 3.

Subsequent to year end, renewed facilities sized at $45.0 million have been agreed conditional only upon the raising of $25.0 million (net of issue costs) from the sale of shares as detailed below. This $45.0 million facility extends through to 15 June 2017. The financial covenants that are associated with these facilities are based upon the same criteria as the previous agreement but also reflect the latest financial forecasts for Group with a suitable degree of headroom incorporated.

In addition to the extended banking facilities the Group, as announced today and detailed in Note 12, will issue 24,067,171 new shares for a gross consideration of $30.3 million. 75% of the shares will be underwritten with the remaining 25% being committed shares taken up by the Group's largest shareholder and certain Directors. The issuance of these shares will be subject only to approval by a simple majority of those voting at a general meeting on 1 July 2014. The Company has irrevocable commitments to vote in favour of the resolution to issue the shares at that meeting from shareholders holding 26% of the Group's share capital.

Given the above, the Group's forecast and projections, taking reasonable account of possible changes in trading performance, show that the Group should operate within the level of the proposed facility for the foreseeable future and should comply with covenants over this period. The Group also has access to and uses additional uncommitted facilities. Further the Group has a number of mitigating actions available to it should actual performance fall below the current financial forecasts. The Directors have the financial controls and monitoring available to them to put in place those mitigating actions in a timely fashion if they see the need to do so. The Directors therefore believe that the Group is well placed to manage its business within its covenants.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from the date of these accounts. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

This preliminary announcement was approved by the Board of Directors on 12 June 2014.

## 2. Business and geographical segments

### Operating segments

Subsequent to the change in the Executive Management of the Group and a restructuring of the operations, the operating results presented to the Board have been revised. Replacing the four sectors of Consumer, Telecoms/Datacoms, Healthcare and Industrial are the two divisions of Power and Data. These divisions are based upon the nature of products that they supply. In addition, a Central division has been established to capture all of the corporate costs incurred in supporting the operations.

| | |
|---|---|
| Power | The sale and manufacture of electrical power products to manufacturers of electrical / electronic devices and appliances. These include laptop / desktop computers, printers, televisions, power tools and floor cleaning equipment. |
| Data | The sale and manufacture of cables permitting the transfer of electronic and radio-frequency data. These cables can range from simple USB cables to complex high speed cable assemblies. Data cables are used in numerous devices including medical equipment, computer data centres, telecoms networks and the automotive industry. |
| Central | Corporate costs that are not directly attributable to the manufacture and sale of the Group's products but which support the Group in its operations. Included within this division are the costs incurred by the Executive Management Team and the Corporate Head Office. |

The Board believes that the segmentation of the Group based upon product characteristics allows it to better understand the Group's performance and profitability.

| | | **52 weeks to 30 March 2014** | | 52 weeks to 31 March 2013 (restated) |
|---|---|---|---|---|
| | **Revenue $'000** | **Profit / (loss) $'000** | Revenue $'000 | Profit / (loss) $'000 |
| Power | **265,384** | **7,258** | 323,056 | 18,827 |
| Data | **134,793** | **12,650** | 150,098 | 12,760 |
| Unallocated central costs (excluding share-based payments) | **-** | **(15,376)** | - | (19,245) |
| Divisional results before share-based payments and non-recurring items | **400,177** | **4,532** | 473,154 | 12,342 |
| Non-recurring operating items | | **(11,642)** | | (7,966) |
| Share-based payment credit / (expense) | | **2,288** | | (181) |
| Operating profit / (loss) | | **(4,822)** | | 4,195 |
| Finance income | | **100** | | 141 |
| Finance costs | | **(2,840)** | | (2,410) |
| Profit / (loss) before tax | | **(7,562)** | | 1,926 |
| Taxation | | **(6,613)** | | (2,813) |
| Profit / (loss) after tax | | **(14,175)** | | (887) |

Credits / charges for share-based payments and non-recurring items have not been allocated to divisions as management report and analyse division profitability at the level shown above.

### Geographical segments

The Group's revenue from external customers and information about its non-current assets (excluding deferred tax assets) by geographical location are provided below:

| | **Revenue** | | **Non-Current Assets** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Asia (excluding India) | **240,168** | 295,781 | **35,391** | 37,278 |
| North America | **82,762** | 83,163 | **2,257** | 1,329 |
| Europe (excluding UK) | **60,553** | 73,454 | **518** | 492 |
| India | **4,863** | 6,869 | **611** | 681 |
| South America | **11,831** | 13,887 | **798** | 611 |
| UK | **-** | - | **8,607** | 6,984 |
| | **400,177** | 473,154 | **48,182** | 47,375 |

## 3. Non-recurring items

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Restructuring costs | **8,643** | 7,243 |
| Financing | **1,569** | - |
| Provision for historic sales tax claims | **835** | - |
| Movement in onerous lease provisions | **595** | (435) |
| New product start-up costs | **-** | 1,158 |
| **Non-recurring operating costs** | **11,642** | **7,966** |
| **Non-recurring finance costs** | **(552)** | **-** |
| **Total non-recurring items** | **11,090** | **7,966** |

In the current period, a Group-wide restructuring programme which commenced in FY2013, continued across all functions and all regions to align the Group's manufacturing and support facilities with the expected future performance of the business. The $8,643,000 (FY2013: $7,243,000) cost of this programme can be split into:

- an executive and senior management change element. This includes the change of Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Company Secretary, certain non-executive directors, the HR director and the recruitment of the new divisional heads. In total, this has generated a non-recurring charge of $4,913,000 (FY2013: $1,200,000) which includes joining bonuses of $330,000; and
- an operational element. This includes the closure of our North America administrative centre, further reductions in our direct and indirect manufacturing headcount, the removal of certain middle management roles throughout the organisation and costs associated with down-sizing certain operations. In total, this has generated a non-recurring charge of $3,730,000 (FY2013: $6,043,000) which also includes a retention bonus to key non-executive staff of $1,012,000 which would ordinarily not be paid given the performance of the business.

During FY2014 the Group has explored a number of alternate financing opportunities to ensure that sufficient funds are available for it to complete its transformation plan and return the Group to growth. This has cost the Group $1,569,000 (FY2013: $nil) which includes $300,000 paid to the banking syndicate on renegotiation of the covenants. Included within the $1,569,000 is $152,000 of bonuses due to key finance personnel involved in the financing review.

The Group has in addition taken a $835,000 (FY2013: $nil) charge in FY2014 in relation to penalty claims made against the Group relating to sales tax claims made between July 2008 and August 2011. In India, the local tax authorities have lodged penalty and interest claims totalling $817,000 for alleged errors in the reporting of our sales tax position in periods to August 2011. Volex disputes these claims and will appeal against them, however, experience indicates the difficulty in reclaiming prepaid penalty sums.

The Group has increased its onerous lease provision held against two properties resulting in an exceptional charge of $595,000 (FY2013: credit of $435,000). Assumptions made in the calculation of these two provisions have been refreshed resulting in the charge. In the prior year, Volex exited a lease on Dornoch House in return for making a one-off payment. This payment was less than the onerous lease provision held in the accounts and as a result, $435,000 of the provision was released.

In the prior year, operational inefficiencies of $1,158,000 were incurred in relation to new products introduced in FY2012; specifically the migration from PVC to halogen-free power cords. These new products necessitated wide ranging improvements to our manufacturing processes and investments in higher grade tooling and precision moulding technologies. The exceptional costs include the materials scrap costs and labour inefficiencies associated with the new product lines.

During the current year, the Group received a refund for overpayment of interest in earlier periods totalling $552,000 (FY2013: $nil).

## 4. Taxation

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Current tax – charge for the period | **2,384** | 2,782 |
| Current tax – adjustment in respect of previous periods | **(265)** | 452 |
| **Total current tax** | **2,119** | 3,234 |
| Deferred tax | **4,494** | (421) |
| **Income tax expense** | **6,613** | 2,813 |

## 5. Earnings / (loss) per ordinary share

The calculations of the earnings / (loss) per share are based on the following data:

| **Earnings / (loss)** | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Profit / (loss) for the purpose of basic and diluted earnings / (loss) per share being net profit attributable to equity holders of the parent | **(14,175)** | (887) |
| Adjustments for: | | |
| Non-recurring items | **11,090** | 7,966 |
| Share-based payments (credit) / charge | **(2,288)** | 181 |
| Tax effect of above adjustments | **-** | (792) |
| Underlying earnings / (loss) | **(5,373)** | 6,468 |

| | **No. shares** | No. shares |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **59,766,443** | 56,913,780 |
| Effect of dilutive potential ordinary shares / share options | **-** | 771,673 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **59,766,443** | 57,685,453 |

| | **2014** | 2013 |
|---|---|---|
| **Basic earnings / (loss) per share** | **Cents** | Cents |
| Basic earnings / (loss) per share | **(23.7)** | (1.6) |
| Adjustments for: | | |
| Non-recurring items | **18.5** | 14.0 |
| Share-based payments (credit) / charge | **(3.8)** | 0.3 |
| Tax effect of above adjustments | **-** | (1.3) |
| Underlying basic earnings / (loss) per share | **(9.0)** | 11.4 |
| **Diluted earnings per share** | | |
| Diluted earnings / (loss) per share | **(23.7)** | (1.6) |
| Adjustments for: | | |
| Non-recurring items | **18.5** | 13.8 |
| Share-based payments (credit) / charge | **(3.8)** | 0.3 |
| Tax effect of above adjustments | **-** | (1.3) |
| Underlying diluted earnings / (loss) per share | **(9.0)** | 11.2 |

The underlying earnings / (loss) per share has been calculated on the basis of profit / (loss) before non-recurring items and share-based payments, net of tax. The Directors consider that this earnings / (loss) per share calculation gives a better understanding of the Group's earnings / (loss) per share in the current and prior period.

## 6. Dividends

| | 2014 | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Amounts recognised as distributions to equity holders in the period: | | |
| Final dividend for the 52 weeks ended 31 March 2013 of 3.0 cents per share (2013: 3.0 pence per share) | **1,723** | 1,690 |
| Interim dividend for the 52 weeks ended 30 March 2014 of 0.0 cents per share (2013: 2.0 cents per share) | - | 1,123 |
| | **1,723** | 2,813 |
| | | |
| Proposed final dividend for the 52 weeks ended 30 March 2014 of 0.0 cents per share (2013: 3.0 cents per share) | - | 1,723 |

At the Volex plc Annual General Meeting held on 22 July 2013, the shareholders approved the proposed final dividend for FY2013 of 3.0 cents per share. At the same meeting a Scrip Dividend Scheme, which gave shareholders the right to elect to receive new ordinary shares in the Company (credited as fully paid) instead of a cash dividend, was also approved.

Payment of the final dividend in respect of the year ended 31 March 2013 was made on 17 October 2013. Of the shareholder base eligible for dividends, 59.1% elected for the Scrip Dividend Scheme resulting in a cash payment of $732,000 and 566,467 new shares being issued.

## 7. Bank facilities

On 31 May 2011 the Group entered into a $75 million multi-currency combined revolving, overdraft and guarantee facility with a syndicate of three banks (Lloyds Banking Group plc, HSBC Bank plc and Clydesdale Bank plc – together 'the Syndicate'). The facility is available until June 2015. The principal terms of the facility are as follows:

- no scheduled facility amortization;
- pricing (margin over LIBOR) payable linked to a net debt:EBITDA leverage ratio. Average margin of 3.7% during FY2013 (2012: 2.5%);
- interest cover and net debt:EBITDA leverage covenants; and
- the facility is secured by fixed and floating charges over the assets of certain Group companies.

At 30 March 2014, the Group had available $28,194,000 (FY2013: $26,541,000) of undrawn committed borrowing facilities.

Due to the relatively short period after the year end until expiry of the facility and also due to the high level of non-recurring items incurred during the year when combined with the lower level of profitability than initially anticipated, it became necessary during the year and subsequent to year end for the Group to hold extensive discussions with its bankers.

The result of these discussions was that the financial covenants referred to above were initially adjusted to allow for the poor trading that the Group was experiencing at that time. The cost of agreeing these adjustments with the Syndicate was $300,000. This cost along with associated professional fees is reflected as a non-recurring item in the accounts (see Note 3).

Subsequent to year end, renewed facilities sized at $45.0 million have been agreed conditional only upon the raising of $25.0 million (net of issue costs) from the sale of shares (see Note 12). This $45.0 million facility extends through to 15 June 2017. The financial covenants that are associated with these facilities are based upon the same criteria as the previous agreement but also reflect the latest financial forecasts for Group with a suitable degree of headroom incorporated.

## 8. Notes to cash flow statement

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| **Profit / (loss) for the period** | **(14,175)** | (887) |
| Adjustments for: | | |
| Finance income | **(100)** | (141) |
| Finance costs | **2,840** | 2,410 |
| Income tax expense | **6,613** | 2,813 |
| Depreciation on property, plant and equipment | **6,632** | 4,812 |
| Amortisation of intangible assets | **1,340** | 1,131 |
| (Gain) / Loss on disposal of property, plant and equipment | **22** | (28) |
| Share option payment (credit) / charge | **(2,288)** | 181 |
| Effects of foreign exchange rate changes | **(893)** | - |
| Decrease / (increase) in provisions | **494** | (1,444) |
| **Operating cash flow before movement in working capital** | **485** | 8,847 |
| Decrease / (increase) in inventories | **2,897** | 6,374 |
| Decrease / (increase) in receivables | **5,713** | 19,504 |
| (Decrease) / increase in payables | **(17,270)** | (22,712) |
| **Movement in working capital** | **(8,660)** | 3,166 |
| | | |
| **Cash generated from / (used in) operations** | **(8,175)** | 12,013 |
| Cash generated from / (used in) operations before non-recurring items | **(721)** | 18,907 |
| Cash utilised by operating non-recurring items | **(7,454)** | (6,894) |
| | | |
| Taxation paid | **(1,215)** | (3,868) |
| Interest paid | **(1,677)** | (1,780) |
| **Net cash generated from / (used in) operating activities** | **(11,067)** | 6,365 |

## 9. Analysis of net debt

| | Cash and cash equivalents $'000 | Bank loans $'000 | Finance leases $'000 | Debt issue costs $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 April 2012 | 41,180 | (38,663) | (117) | 1,243 | 3,643 |
| Cash flow | (17,229) | (6,000) | 117 | - | (23,112) |
| Exchange differences | (162) | 566 | - | (45) | 359 |
| Other non-cash changes | - | - | - | (390) | (390) |
| **At 31 March 2013** | 23,789 | (44,097) | - | 808 | (19,500) |
| Cash flow | **(9,923)** | **(1,082)** | **-** | **-** | **(11,005)** |
| Exchange differences | **(191)** | **(1,193)** | **-** | **58** | **(1,326)** |
| Other non-cash changes | **-** | **-** | **-** | **(389)** | **(389)** |
| **At 30 March 2014** | **13,675** | **(46,372)** | **-** | **477** | **(32,220)** |

Debt issue costs relate to bank facility arrangement fees. Amortisation of debt issue costs in the period amounted to $389,000 (FY2013: $390,000).

## 9. Analysis of net debt (continued)

| Analysis of cash and cash equivalents: | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Cash and bank balances | **13,675** | 25,044 |
| Bank overdrafts | **-** | (1,255) |
| Cash and cash equivalents | **13,675** | 23,789 |

## 10. Provisions

| | **Property** | **Corporate restructuring** | **Other** | **Total** |
|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** |
| At 1 April 2012 | 5,371 | 151 | 146 | 5,668 |
| Charge / (credit) in the period | (452) | 299 | 572 | 419 |
| Utilisation of provision | (917) | (41) | (282) | (1,240) |
| Unwinding of discount | 287 | - | - | 287 |
| Exchange differences | (234) | (12) | (17) | (263) |
| At 31 March 2013 | 4,055 | 397 | 419 | 4,871 |
| Charge / (credit) in the period | **574** | **3,743** | **160** | **4,477** |
| Utilisation of provision | **(1,266)** | **(1,639)** | **(361)** | **(3,266)** |
| Unwinding of discount | **106** | **-** | **-** | **106** |
| Exchange differences | **380** | **107** | **10** | **497** |
| **At 30 March 2014** | **3,849** | **2,608** | **228** | **6,685** |
| Less: included in current liabilities | **(1,130)** | **(2,608)** | **(228)** | **(3,966)** |
| Non-current liabilities | **2,719** | **-** | **-** | **2,719** |

**Property provisions**

Property provisions represent the anticipated net costs of onerous leases and associated dilapidations. The provisions have been recorded taking into account management's best estimate, following appropriate advice, of the anticipated net cost of the lease over the remaining lease term and the level of sublease rental income, if any, that can be obtained from sub-tenants. This provision will be utilised as the rental payments, net of any sublease income, fall due through to 2020.

During the 52 weeks ended 30 March 2014, the Group revised its assumptions on two onerous properties following the receipt of external advice as to likely future cash outflows. During the 52 weeks ended 31 March 2013, the Group entered into negotiations with the landlord of one of the onerous properties with a view to exiting the lease. As a consequence of this, $435,000 of the property provision was released. This property was exited in July 2013.

**Corporate Restructuring**

The corporate restructuring provision includes a joining bonus of $330,000 to certain senior management, $152,000 of bonuses due to finance personnel following the financing review and a retention bonus of $1,012,000 (FY2013: $nil) payable to senior employees throughout the organisation to reflect their commitment to Volex during the restructuring period. This bonus is to be paid despite the poor trading performance and is not dependent upon any future actions. Also included within the provision is $605,000 (FY2013: $397,000) for severance payments due to staff that have either left the Group through the restructuring programme or who are due to leave shortly and have been notified. $423,000 (FY2013: $nil) has been provided for ongoing relocation support to newly hired executive management and tax thereon. This support is due to cease in May 2014. A final amount relates to professional fees associated with the liquidation of dormant overseas entities.

**Other**

Other provisions include the Directors' best estimate, based upon past experience, of the Group's liability under specific product warranties and legal claims. The timing of the cash outflow with respect to these claims is uncertain.

## 11. Reconciliation of operating profit to underlying EBITDA (earnings before interest, tax, depreciation, amortisation, non-recurring items and share-based payment charge):

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| **Operating profit** | **(4,822)** | 4,195 |
| Add back: | | |
| Non-recurring items | **11,642** | 7,966 |
| Share-based payment (credit) / charge | **(2,288)** | 181 |
| **Underlying operating profit** | **4,532** | 12,342 |
| Depreciation of property, plant and equipment | **6,632** | 4,812 |
| Amortisation of acquired intangible assets | **1,340** | 1,131 |
| **Underlying EBITDA** | **12,504** | 18,285 |

## 12. Post balance sheet events

The Group intends to issue 24,067,171 new shares for a gross consideration of $30.3 million post year end. 75% of these shares will be underwritten with the remaining 25% being committed shares taken up by the Group's largest shareholder and certain Directors. The issuance of these shares will be subject only to approval by a simple majority of those voting at a general meeting on 1 July 2014.

The Group has irrevocable commitments to vote in favour of the resolution to issue the shares at that meeting from shareholders holding 26% of the Group's share capital.