

Knowles (UK) Limited
(formerly Syfer Technology Limited)
Directors' report and financial statements
for the year ended 31 December 2014

Registered number: 02092166

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Knowles (UK) Limited

Directors' report and financial statements for the year ended 31 December 2014

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Knowles (UK) Limited

Directors and advisors

Directors

J M Shreeve

D W Wightman

R J Sullivan

Company secretary

M Pacioni

Registered number

02092166

Registered office

Old Stoke Road

Arminghall

Norwich

Norfolk

NR14 8SQ

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

3 St James Court

Whitefriars

Norwich

NR3 1RJ

Knowles (UK) Limited

Strategic report for the year ended 31 December 2014

The directors present their strategic report for the year ended 31 December 2014. Ownership of Knowles (UK) Limited (the “company”), formerly Syfer Technology Limited, changed at the end of February 2014 when the ultimate parent ownership changed to Knowles Corporation, upon the separation of Knowles from Dover Corporation ownership. As separate companies, both Dover and Knowles will have greater flexibility to focus on and pursue their respective growth strategies and be better positioned to build upon their long history of success. The company changed its name to Knowles (UK) Limited on 11 November 2014.

Strategy

The company’s overriding objective is to achieve sustainable rates of growth and returns through organic growth and enhanced profitability. There are four key elements to the company’s strategy for growth:

- Leading Knowles Capacitors global R&D and new product development initiatives
- Further expansion into the Far East and North American markets
- Use of lower cost labour and materials where appropriate
- Exploiting synergies within the Knowles group

To aid this strategy the company is in the process of outsourcing manufacturing and distribution activities in the Far East.

Future outlook

The company expects steady expansion over the long to medium term, and expects to be able to compete on quality, price and focus our product development to align our efficiency with our customer needs. The company has launched innovative products during the year, and expects to continue to do so in the future. Reducing cost drivers is expected to allow the company to compete in markets currently considered to be low margin, whilst maintaining an increasing market share of application specific products which provide a greater margin contribution. The higher rate of new product introduction is projected to allow more aggressive sales expansion.

Research and development

Increased emphasis has been placed on research and development activities with the introduction of specific goals and timeframes to ensure the company remains ahead of the competition. The company continues an active programme of research and development into new materials and technology, and customer product development. The company has also encouraged partnership projects both within the Knowles group and with academic and industrial organisations.

The main areas of focus have been:

- Product enhancements;
- Material development; and,
- Process improvements.

Principal risks and uncertainties

The management of the business and the execution of the company’s strategy are subject to a number of risks. Risks are formally reviewed by the board and appropriate processes put in place to monitor and mitigate them. The key business risks affecting the company are set out below.

Supply chain

Mitigating the risk of increased costs has successfully been achieved by bringing on lower cost suppliers and by utilising the Group’s purchasing power.

Knowles (UK) Limited

Strategic report for the year ended 31 December 2014 (continued)

Quality management

World class quality products are a key selling feature of Syfer branded products, risks associated with poor quality are mitigated as the business continues to maintain ISO9001, ISO14001, and OHSAS 18001 which it runs as an Integrated Management System, along with safety capacitor approvals by TUV Rheinland and Underwriters Laboratory. As a supplier to markets which are dependent on high reliability products the company is pro-active in monitoring the quality of its products and ensuring that liabilities to such markets are limited. Product approvals to Automotive Electronics Council automotive standard and International Electrotechnical Commission Quality have helped strengthen our positions in these markets.

Environmental management

The company continues to improve its environmental impact by working with customers, suppliers and regulators to ensure that new products are based on materials and processes that minimise the company's environmental footprint.

Financial risk management

The company's operations form part of the Knowles group, and as such, the directors are of the opinion that liquidity and interest rate cash flow risk are minimal, given the access to working capital facilities from the group. The most significant financial risks are price risk, credit risk and foreign exchange risk.

Price risk

The company's activities expose it to market risks associated with movements in commodity prices. With regard to commodity price risk, the company is exposed to changes in the price of key raw materials palladium, silver and neodymium. Some volatility has been seen as with many commodities but supply is currently in line with demand so no extreme movements are expected. When deemed appropriate, the company may seek through the Knowles Group to hedge against palladium price movements. No hedge was in effect at the financial year end.

Credit risk

The company has policies and procedures that require appropriate checks on potential customers before sales are made. The amount of exposure to any individual counterpart is subject to limits which are monitored regularly to ensure no undue exposure to customer failure exists.

Foreign exchange risk

Foreign exchange risk is managed by matching payments and receipts in foreign currencies where possible to minimise exposure.

Key performance indicators

Key measures used by the company's directors to monitor the performance and position of the business include but are not restricted to the following:

	2014 £'000	2013 £'000
Revenue	24,696	25,407
Operating profit	441	1,153
Profit before tax	2,000	2,628
Current ratio	5.32	7.74
Total assets / total liabilities	3.12	3.57

Knowles (UK) Limited

Strategic report for the year ended 31 December 2014 (continued)

On behalf of the Board



J M Shreeve

Director

29 October 2015

Knowles (UK) Limited

Directors' report for the year ended 31 December 2014

The directors present their annual report and audited financial statements for the year ended 31 December 2014.

Principal activities and results and dividends

The company's principal activity is the manufacture of multilayer ceramic capacitors and filters. The results for the company show a profit on ordinary activities before taxation for the financial year of £2,000,000 (2013: £2,628,000) and turnover of £24,696,000 (2013: £25,407,000). The company had net assets of £20,696,000 as at 31 December 2014 (2013: £20,075,000). No dividends were paid or proposed during the year (2013: £nil).

Business environment

The company operates in a highly competitive global market. Approximately 37.0% (2013: 38.7%) of the company's turnover is made within Europe, 21.0% (2013: 20.3%) within the North American Free Trade Agreement ("NAFTA") and 39.5% (2013: 38.4%) within the Far East. During the year the company utilised the global sales force of the Knowles Capacitors division within the group headed by the Knowles Corporation, the company's ultimate parent undertaking during the year.

Within this competitive environment the company seeks to differentiate itself from its competitors by offering innovative application specific products of the highest possible quality, with low lead times.

Directors

The directors who served during the financial year and up to the date of signing these financial statements were as follows:

H G Ingleson (Resigned 15 April 2015)

J M Shreeve

J W Smith (Resigned 28 February 2014)

P J Marshal (Resigned 28 February 2014)

D W Wightman

R J Sullivan (Appointed 28 February 2014)

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee communication and involvement

The company has continued to show its commitment to effective communication between management and employees, and has encouraged employees to contribute directly to product development, quality and service cost containment initiatives.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of

Knowles (UK) Limited

Directors' report for the year ended 31 December 2014 (continued)

the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

So far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



J M Shreeve

Director

29 October 2015

Knowles (UK) Limited

Independent auditors' report to the members of Knowles (UK) Limited

Report on the financial statements

Our opinion

In our opinion, Knowles (UK) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the directors' report and financial statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account and the statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Knowles (UK) Limited

Independent auditors' report to the members of Knowles (UK) Limited (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 4-5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

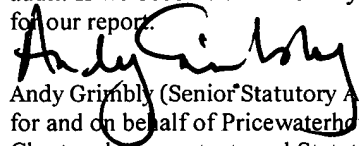
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Andy Grimbley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Norwich
29 October 2015

Knowles (UK) Limited

Profit and loss account for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Turnover	2	24,696	25,407
Cost of sales		(18,359)	(15,595)
Gross profit		6,337	9,812
Distribution costs		(1,877)	(1,749)
Administrative expenses		(4,019)	(6,910)
Operating profit	5	441	1,153
Profit on sale of tangible assets		1,197	1,385
Interest receivable and similar income	6	208	42
Net finance income	7	154	48
Profit on ordinary activities before taxation		2,000	2,628
Tax on profit on ordinary activities	8	67	(610)
Profit for the financial year	17, 18	2,067	2,018

The results for the financial year and prior year are derived entirely from continuing operations.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical costs equivalents.

Knowles (UK) Limited

Statement of total recognised gains and losses for the year ended 31 December 2014

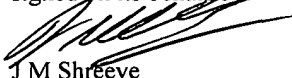
	Note	2014 £'000	2013 £'000
Profit for the financial year		2,067	2,018
Actuarial loss on pension scheme	7	(1,829)	(238)
Movement on deferred tax relating to pension deficit	14	366	(72)
Total recognised gains relating to the financial year		604	1,708

Knowles (UK) Limited

Balance sheet as at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Tangible assets	9	2,500	2,938
Current assets			
Stocks	10	1,139	1,935
Debtors	11	25,374	21,377
Cash at bank and in hand		1,461	1,623
		27,974	24,935
Creditors: amounts falling due within one year	12	(5,254)	(3,221)
Net current assets		22,720	21,714
Total assets less current liabilities		25,220	24,652
Provisions for liabilities	13	(412)	(1,511)
Net assets excluding pension deficit		24,808	23,141
Pension deficit	7	(4,112)	(3,066)
Net assets		20,696	20,075
Capital and reserves			
Called up share capital	15	385	385
Capital redemption reserve	17	890	890
Other reserve	17	104	87
Profit and loss account	17	19,317	18,713
Total shareholders' funds	18	20,696	20,075

The financial statements on pages 9 to 31 were approved by the board of directors on 29 October 2015 and were signed on its behalf by:



J M Shreeve

Director

Registered number: 02092166

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014

1. Accounting policies

These financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently, are set out below.

Turnover

Turnover represents sales at invoice value net of discounts allowed, and excluding value added tax. Turnover is recognised upon despatch of goods, the company having fulfilled its obligations at that point in time, and when the risks and rewards of ownership have been transferred to the customer.

Tangible assets and depreciation

Tangible assets are stated in the balance sheet at historical cost less accumulated depreciation. Costs include original purchase price plus costs directly attributable to bringing the asset into working condition for its intended use.

Depreciation is calculated to write off the cost of tangible assets less their estimated residual value on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	2% - 6.7% per annum
Plant and machinery	10% - 20% per annum
Office and computer equipment	20% - 33.3% per annum
Motor vehicles	25% - 33.3% per annum
Freehold land is not depreciated.	

Construction work in progress projects are not depreciated. When brought into use they are depreciated according to the company's policy for the category of asset (shown above) into which they are transferred.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis, and comprises the direct cost of production and the attributable proportion of all overheads appropriate to location and condition. Net realisable value is the estimated selling price net of costs of completion, marketing and distribution. Provision is made, where necessary, to reflect the recoverable amount.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Differences arising on translation and on conversion of foreign currency transactions are dealt with as part of the profit on ordinary activities.

Operating leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to sign a lease are spread evenly over the lease term, or to an earlier date when the first rent review will adjust the rent to the prevailing market value.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

1. Accounting policies (continued)

Cash flow and related party disclosures

The company is a wholly owned subsidiary of Knowles Corporation, which publishes consolidated financial statements which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard ("FRS") 1 (revised 1996), "Cash Flow Statements". The company is also exempt under the provisions of FRS 8, "Related Party Disclosures" from the requirement to disclose details of transactions with other wholly owned group undertakings.

Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable items.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Pensions

The company operates a defined benefit scheme which is contracted out of the State Pension Scheme but which was closed to further accrual on 6 April 2006. The assets of the funded defined benefit scheme are held and managed independently of the company. Full actuarial valuations are carried out every three years with interim reviews in the intervening years; these valuations are updated to 31 December each year by qualified independent actuaries. For the purpose of these updates, scheme assets are included at bid price and scheme liabilities are measured on an actuarial basis using the projected unit method. These liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. The post-retirement benefit deficit is included on the balance sheet, net of deferred tax. The current service cost and any past service costs are included in the profit and loss account within operating expenses and the expected return on the scheme's assets, net of the impact of the unwinding of the discount on the scheme's liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of the related deferred tax, in the statement of total recognised gains and losses.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

1. Accounting policies (continued)

Pensions (continued)

Following the closure of the defined benefit pension scheme to new members, a defined contribution scheme was established during 2003. Contributions to this scheme are charged to the profit and loss account in the financial year to which they relate.

Share-based payments

Certain employees of the company participate in share based payment scheme operated by the ultimate parent company, Knowles Corporation. In accordance with FRS 20, "Share-based Payment", stock options, stock appreciation rights and restricted stock units granted since November 2002 are measured at fair value at the time of grant. For stock options and stock appreciation rights, fair value is measured by use of the Black-Scholes model. The fair value determined at the grant date is expensed on a straight-line basis over the 3 year vesting period with a corresponding increase in 'other reserves'. Restricted stock units are valued by multiplying the number of restricted stock units by the closing share price on the grant date and expensed over the vesting period. Charges are levied by the ultimate parent company at the time of each exercise based on the difference at that time between the current listed share price and the option / stock-settled share appreciation rights ("SSARs") grant price. This expense is charged against the 'Other reserve'. Provision for National Insurance payable by the employer on gains on exercise of options is recognised in accordance with UITF 25.

Research and development

The company continues an active programme of research and development, the cost of which is wholly written off in the financial year in which expenditure is incurred.

Financial instruments

Financial assets and financial liabilities are recognised upon becoming a party to the contractual provisions of the instrument.

Trade debtors

Trade debtors are non-interest bearing and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the company after deducting all of its liabilities.

Trade creditors

Trade creditors are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

2. Turnover

Turnover and profit on ordinary activities before taxation are derived entirely from the company's principal activity undertaken in the United Kingdom.

	2014 £'000	2013 £'000
The analysis of turnover by geographical destination is as follows:		
United Kingdom	1,535	1,881
Other European countries	7,607	7,948
Middle East	524	638
Far East	9,744	9,763
NAFTA (USA, Canada and Mexico)	5,186	5,156
Rest of world	100	21
	24,696	25,407

3. Employee information

Staff costs	2014 £'000	2013 £'000
Wages and salaries	5,066	7,757
Social security costs	545	748
Other pension costs	217	353
	5,828	8,858

The monthly average number of persons (including executive directors) employed by the company during the year was:

By activity:	2014 Number	2013 Number
Production	102	197
Sales and administration	59	42
	161	239

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

4. Directors' emoluments

	2014 £'000	2013 £'000
Aggregate emoluments	299	340
Money purchase scheme: aggregate company contributions paid	67	22

There has been no compensation paid for loss of office in the financial year. No directors have exercised share options or received shares during the financial year in respect of qualifying services under a long-term incentive scheme.

Retirement benefits are accruing to one (2013: two) director under a defined benefit scheme and defined contribution scheme.

Highest paid director	2014 £'000	2013 £'000
Total emoluments and amounts receivable under long term incentive schemes	191	206
Defined benefit pension scheme: accrued annual pension at end of year	11	11
Money purchase scheme: company contributions paid in the financial year	13	11

5. Operating profit

	2014 £'000	2013 £'000
Operating profit is stated after charging the following:		
Depreciation of tangible assets – owned (note 9)	410	432
Operating lease charges – plant and machinery	52	40
Foreign exchange loss	747	181
Fees payable for the audit to the company's auditor	37	24

6. Interest receivable and similar income

	2014 £'000	2013 £'000
Intercompany interest receivable	208	42

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

7. Pension deficit

Syfer Technology pension plan

The Syfer Technology pension plan is a defined benefit scheme.

The scheme was closed to new entrants on 1 August 2003 and benefits ceased to accrue with effect from 6 April 2006. The latest full actuarial valuation was at 5 April 2014.

The assets of the scheme are held independently of the company. The directors consider that the funding arrangements are satisfactory and adequate to meet the future liabilities of these funds.

An actuarial valuation using the projected unit basis was carried out at 31 December 2014 by an independent actuary. The principal assumptions used by the actuary to calculate scheme liabilities under FRS 17, "Retirement Benefits" were:

	As at 31 December 2014 % per annum	As at 31 December 2013 % per annum
Valuation method	Projected unit	Projected unit
Discount rate	3.58	4.43
Inflation	3.09	3.45
Pension increases	3.04	3.25

The mortality assumptions used are based on standard mortality tables, as follows:

Pre-retirement mortality AXC00

Post-retirement mortality SIPXA

The assumed life expectation on retirement aged 65 is:

	As at 31 December 2014	As at 31 December 2013
Males	23.1 years	23.3 years
Females	25.7 years	25.8 years

Allowance for each member's year of birth has been made. Future mortality improvements are projected in accordance with the medium cohort trend improvements with a minimum annual improvement of 1%.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

7. Pension deficit (continued)

The assets in the scheme and the expected rate of return were:

	As at 31 December 2014		As at 31 December 2013	
	Long term rate of return expected % p.a.	Value of assets £'000	Long term rate of return expected % p.a.	Value of assets £'000
Equities	7.48%	7,821	7.76%	7,525
UK index linked gilts	2.17%	1,468	3.49%	1,236
UK Corporate bonds	3.45%	2,622	4.48%	2,263
Diversified Growth Fund	6.98%	2,997	7.26%	2,819
Cash	2.00%	75	3.30%	42
Total market value of scheme assets		14,983		13,885
Present value of scheme liabilities		20,124		17,718
Deficit in the scheme		(5,141)		(3,833)
Related deferred tax asset		1,029		767
Net pension deficit		(4,112)		(3,066)

The equity investments and bonds which are held in scheme assets are quoted on a single price basis, which approximates to the current bid price following the adoption of the amendment to FRS 17.

Scheme members may pay Additional Voluntary Contributions ("AVCs"). These operate on a defined contribution basis. The figures above exclude any assets and liabilities arising from members' individual AVC accounts.

Reconciliation of present value of scheme liabilities:

	2014 £'000	2013 £'000
1 January	17,718	16,496
Interest cost	772	717
Actuarial loss	2,235	1,125
Benefits paid	(601)	(620)
31 December	20,124	17,718

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

7. Pension deficit (continued)

Reconciliation of fair value of scheme assets:

	2014 £'000	2013 £'000
1 January	13,885	12,497
Expected return on scheme assets	926	765
Actuarial gain	406	887
Current service cost	(90)	(101)
Benefits paid	(601)	(620)
Contributions paid by employer	457	457
31 December	14,983	13,885

The expected returns on scheme assets are determined by considering the expected returns available on the assets underlying the current investment policy and are assumed to be net of any indirect investment manager fees. Expected yields on equity investments reflect long-term real rates of return experience in the respective markets. The scheme does not invest in the employer's own financial instruments, including property or other assets owned, or used, by the employer.

Movement in deficit during the year:

	2014 £'000	2013 £'000
Deficit in scheme at beginning of the year	(3,833)	(3,999)
Movement in year:		
Contributions	457	457
Current service cost	(90)	(101)
Net finance income	154	48
Actuarial loss	(1,829)	(238)
Deficit in scheme at end of the year	(5,141)	(3,833)

Total contributions were paid during the financial year of £457,000 (2013: £457,000). After 6 April 2006, when the scheme closed to future accrual, the company has agreed to pay annual contributions of at least £193,000 per annum until such time as the deficit is cleared. No allowance for expenses and the death in service premiums is allowed for in this contribution.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

7. Pension deficit (continued)

Analysis of amounts (charged)/credited to profit and loss account:

	2014 £'000	2013 £'000
Expected return on pension scheme assets	926	765
Interest on pension scheme liabilities	(772)	(717)
Current service cost	(90)	(101)
Total income/(charge)	64	(53)

Amounts for current year and previous four years:

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Defined benefit obligation	(20,124)	(17,718)	(16,496)	(14,000)	(13,714)
Scheme assets	14,983	13,885	12,497	11,550	11,490
Deficit	(5,141)	(3,833)	(3,999)	(2,450)	(2,224)
Experience adjustments on scheme assets	406	887	390	(685)	769
Experience adjustments on scheme liabilities	(53)	40	(340)	214	308
Changes in assumptions underlying the present value of the scheme liabilities	(2,182)	(1,165)	(1,981)	(101)	(452)
Actuarial (loss)/gain recognised in the statement of recognised gains and losses	(1,829)	(238)	(1,931)	(572)	625

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses for financial years ending on or after 31 December 2002 is £5,574,000.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

7. Pension deficit (continued)

Money purchase pension scheme

The company operates a pension scheme providing benefits to members based upon accumulated contributions. The company administers the fund and the assets of the scheme are held separately from the company with an insurance company. Contributions are charged to the profit and loss account in the financial year in which they accrue. The pension charge for the financial year was £217,000 (2013: £252,000). There were accrued contributions at the end of the financial year totalling £41,000 (2013: £46,000).

8. Tax on profit on ordinary activities

	2014 £'000	2013 £'000
Current tax:		
United Kingdom corporation tax on profit of the financial year	(324)	85
Adjustment in respect of prior years	53	248
Total current tax	(271)	333
Deferred tax:		
Current year	100	359
Change in tax rate	-	37
Net pension contribution in excess of net pension charge	104	81
Adjustment in respect of prior years	-	(200)
Total deferred tax	204	277
Tax (credit)/charge on profit on ordinary activities	(67)	610

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

8. Tax on profit on ordinary activities (continued)

The tax assessed for the period is lower (2013: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2014 of 21.5% (2013: 23.25%). The differences are explained below:

	2014	2013
	£'000	£'000
Profit on ordinary activities before taxation	2,000	2,628
UK corporation tax at 21.5% (2013: 23.25%)	430	611
Effects of:		
Depreciation in excess of capital allowances	(434)	(358)
Other timing differences	(162)	(59)
Other permanent differences	(54)	(28)
Net pension contribution in excess of net pension charge	(104)	(81)
Adjustments in respect of prior years	53	248
Current tax charge for the year	(271)	333

Factors that may affect future tax charges

During the year, as a result of the changes in the UK corporation tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015, which were substantially enacted on 2 July 2013, the relevant deferred tax balances have been re-measured. The budget announcements made on 8 July 2015 for future reductions in the main rate of corporation tax to 18% by 1 April 2020, were not substantively enacted at the balance sheet date.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

9. Tangible assets

	Freehold land and buildings £'000	Construction work in progress £'000	Plant and machinery £'000	Office and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January 2014	1,942	361	10,151	422	22	12,898
Additions	-	1,469	-	-	-	1,469
Transfers	299	(1,394)	1,331	(236)	-	-
Disposals	-	-	(6,644)	-	-	(6,644)
At 31 December 2014	2,241	436	4,838	186	22	7,723
Accumulated depreciation						
At 1 January 2014	625	-	8,910	403	22	9,960
Charge for the year	65	-	330	15	-	410
Transfers	253	-	(17)	(236)	-	-
Disposals	-	-	(5,147)	-	-	(5,147)
At 31 December 2014	943	-	4,076	182	22	5,223
Net book amount						
At 31 December 2014	1,298	436	762	4	-	2,500
At 31 December 2013	1,317	361	1,241	19	-	2,938

10. Stocks

	2014 £'000	2013 £'000
Raw materials and consumables	588	1,072
Work in progress	79	708
Finished goods	472	155
	1,139	1,935

The replacement cost of stocks and work in progress is not materially different to the numbers disclosed above.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

11. Debtors

	2014 £'000	2013 £'000
Trade debtors	470	2,883
Amounts owed by group undertakings	23,617	17,772
Corporation tax	739	-
Deferred taxation (note 14)	-	88
Other debtors	368	383
Prepayments and accrued income	180	251
	25,374	21,377

The above amounts fall due within one year with the exception of deferred taxation, which is recoverable after more than one year.

The amounts owed by group undertakings are unsecured and receive interest at market rates.

12. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Trade creditors	744	623
Amounts owed to group undertakings	3,739	538
Corporation tax	-	12
Deferred taxation (note 14)	12	-
Other taxation and social security	166	132
Other creditors	111	87
Accruals and deferred income	482	1,829
	5,254	3,221

The amounts owed to group undertakings are unsecured and interest free.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

13. Provisions for liabilities

The movements on provisions during the financial year were as follows:

	Warranty provision £'000	Long term incentive plan £'000	Holiday pay provision £'000	Distributor sales reserve £'000	Obsolescence provision £'000	Restructuring provision £'000	Total £'000
At 1 January 2014	30	18	104	272	292	795	1,511
(Credited)/charged to profit and loss account	-	(18)	74	107	-	(62)	101
Utilised during the financial year	-	-	(104)	(107)	(292)	(697)	(1,200)
At 31 December 2014	30	-	74	272	-	36	412

Warranty provision

The company makes provision for the cost of faulty returned goods to the extent of the expected transfer of economic benefit.

Long term incentive plan

This is a provision relating to employee incentive plans (other than share based payments) which are dependent on the future performance of the company.

Holiday pay provision

The holiday pay provision represents holiday entitlement that the company is obligated to provide as at 31 December 2014.

Distributor sales reserve

The company makes provision for the cost of returned goods to the extent of the expected transfer of economic benefit.

Obsolescence provision

Due to the transfer of the production facilities are relocated to China and Malaysia. Malaysian entity is unable to dispose of scrap metal due to the local laws; hence the scrap metal will be relocated back to Knowles UK to dispose of, which requires a provision to address this obligation.

Restructuring provision

As at 31 December 2014, the company had initiated plans to transfer certain manufacturing activities to the Far East, and accordingly provision has been made in respect of committed costs which will be incurred as a result of this decision.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

14. Deferred taxation

Deferred taxation provided in the financial statements (excluding the asset relating to the pension deficit) is as follows:

	2014 £'000	2013 £'000
Tax effect of timing differences because of:		
Depreciation in excess of capital allowances	(68)	(118)
Other timing differences	56	206
Deferred tax (liability)/asset	(12)	88

The movement on the deferred tax (liability)/asset during the financial year was as follows:

	2014 £'000	2013 £'000
At 1 January	88	284
Charged to the profit and loss account during the financial year	(100)	(159)
Change in tax rate	-	(37)
At 31 December	(12)	88

Deferred tax asset relating to pension deficit:

	2014 £'000	2013 £'000
At 1 January	767	920
Charged to profit and loss account	(104)	(81)
(Charged)/credited to statement of total recognised gains and losses:		
On actuarial loss	366	48
Change in tax rate	-	(120)
At 31 December	1,029	767

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

15. Called up share capital

Allotted, and fully paid	2014 £'000	2013 £'000
385,000 (2013: 385,000) ordinary shares of £1 each	385	385
	385	385

16. Share options

Certain employees of the company participate in share based payment plans operated by the ultimate parent company, Knowles Corporation.

In accordance with FRS 20, "Share-based Payment", stock options, stock appreciation rights and restricted stock units granted since November 2002 are measured at fair value at the time of grant. For stock options and stock appreciation rights, fair value is measured by use of the Black-Scholes model. The fair value determined at the grant date is expensed on a straight-line basis over the 3 year vesting period with a corresponding increase in 'other reserves'. Restricted stock units are valued by multiplying the number of restricted stock units by the closing share price on the grant date and expensed over the vesting period. Charges are levied by the ultimate parent company at the time of each exercise based on the difference at that time between the current listed share price and the option / stock-settled share appreciation rights ("SSARs") grant price. This expense is charged against the 'Other reserve'. Provision for National Insurance payable by the employer on gains on exercise of options is recognised in accordance with UITF 25.

Equity and Cash Incentive Plan

Knowles Corporation, the ultimate parent, operates the plans in which certain employees of the company participate. Awards are generally reserved for senior management level employees. Currently in operation is the Knowles Corporation 2014 Equity and Cash Incentive Plan ("the 2014 Plan") approved on 28 February 2014, and this replaced the 2012 Dover Equity Plan at the time of the Knowles spin off from Dover. Under the 2014 Plan, stock options, stock-settled stock appreciation rights ("SARs") and restricted stock units have been granted to certain employees of the company. All stock options and restricted stock units vest one-third each year over 3 years of service and expire at the end of seven years. SARs vest in full after three years of service. For an option, SAR or restricted stock unit to vest the general condition is that of continued employment within Knowles Corporation at the time of vesting. Where an option or SAR holder ceases to be an employee of Knowles Corporation after the vesting period, the right to exercise continues for between 3 and 60 months depending on the reason for cessation of employment. If an employee ceases employment due to gross misconduct all outstanding options or SARs are immediately cancelled. Restricted stock units are forfeited on the termination date. All the options, SARs and restricted stock units are granted by the Knowles Corporation Compensation Committee and have an exercise price equal to the fair market value of Knowles Corporation stock on the day of grant.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

16. Share options (continued)

The fair value of each grant was estimated on the date of grant using a Black-Scholes option-pricing model that included the following assumptions:

	2014 SSARs Granted	2013 SSARs Granted
Note: All values shown as \$ relate to US dollars.		
Risk-free interest rate	1.32%	1.40%
Dividend yield	0.00%	2.06%
Expected life (years)	4.5	6.5
Volatility	44.4%	33.78%
Grant date	07 March 2014	14 Feb 2013
Option grant price	\$29.53	\$71.86
Fair value of grant in Sterling	£7.39	£13.20

For the 2014 stock options granted, the expected life of 4.5 years is the average expected period to exercise. This is the mid-point between the vesting date and expiration and is supported by past experience. The expected volatility is based on the executive compensation peer group volatility. The risk free interest rate is based on the yield on zero-coupon US government bonds of a term consistent with the assumed option life at the date of grant.

A summary of stock option, SAR and restricted stock movements within the company during the period is as follows:

Stock options	2014		2013	
	Shares, number	Weighted average exercise price, £	Shares, number	Weighted average exercise price, £
Outstanding at 1 January	1,504	23.32	7,241	24.27
Expired pre spin	(100)	26.59	-	-
Exercised pre spin	(100)	26.59	-	-
Outstanding at spin	1,304	24.49	-	-
Conversion at spin	3,916	8.15	-	-
Exercised post spin	(3,316)	8.15	(5,737)	24.19
Outstanding at 31 December	600	8.15	1,504	23.32
Exercisable at 31 December	600	8.15	1,504	23.32

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

16. Share options (continued)

SSARs	2014		2013	
	Shares, number	Weighted average exercise price, £	Shares, number	Weighted average exercise price, £
Outstanding at 1 January	12,171	31.07	17,107	28.66
Conversion at spin	36,562	10.99	-	-
Granted	5,333	19.04	2,227	44.04
Exercised	-	-	(7,163)	28.18
Outstanding at 31 December	41,895	12.02	12,171	31.07
Exercisable at 31 December	24,360	9.09	6,307	21.49

For share options exercised during the financial year, the weighted average share price at the date of exercise was £19.82 (2013: £52.47).

The total charge for the financial year relating to employee share-based payment plans was £34,465 (2013: £22,508), all of which related to equity-settled share based payments transactions.

The following stock options and SSARs were outstanding at 31 December:

Year granted	2014		2013	
	Shares, number	Exercise price, £	Shares, number	Exercise price, £
2004	-	-	200	25.03
2005	600	8.15	1,304	23.06
2006	-	-	-	-
2007	-	-	-	-
2008	-	-	-	-
2009	10,539	6.32	3,508	17.87
2010	8,408	9.20	2,799	26.02
2011	5,413	14.29	1,802	40.41
2012	5,512	14.03	1,835	39.67
2013	6,690	15.42	2,227	43.60
2014	5,333	19.04	-	-

Share options were reissued following the acquisition by Knowles Corporation on a 3.004:1 basis so as not to impact the value to the employee. The table above has been restated to reflect this transaction.

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

16. Share options (continued)

Restricted stock units	2014 Shares, number	2013 Shares, number
Outstanding at 1 January	-	-
Granted	1,355	-
Outstanding at 31 December	1,355	-
Exercisable at 31 December	-	-

17. Reserves

	Capital redemption reserve £'000	Other reserve £'000	Profit and loss account £'000
At 1 January 2014	890	87	18,713
Credit in respect of service costs settled by award of share options	-	17	-
Actuarial loss on pension deficit	-	-	(1,829)
Movement on deferred tax relating to pension deficit	-	-	366
Retained profit for the financial year (note 18)	-	-	2,067
At 31 December 2014	890	104	19,317

Knowles (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

18. Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Retained profit for the financial year	2,067	2,018
Actuarial losses on pension deficit	(1,829)	(238)
Movement on deferred tax relating to pension deficit	366	(72)
Charge/(credit) in respect of service costs settled by award of share options	17	(70)
Net addition to shareholders' funds	621	1,638
Opening shareholders' funds	20,075	18,437
Closing shareholders' funds	20,696	20,075

19. Financial commitments

The company had annual commitments under non-cancellable operating leases in respect of plant and machinery expiring as follows:

	Plant & machinery	
	2014 £'000	2013 £'000
Within one year	9	4
Within two and five years	-	15
	9	19

20. Contingent liabilities

The company has issued a guarantee in favour of HM Revenue & Customs, the maximum liability under which is £500,000.

21. Parent undertakings and ultimate controlling party

The company's immediate parent undertaking is Knowles Luxembourg Finance Sarl which holds 100% of the share capital.

The ultimate parent undertaking and ultimate controlling party is Knowles Corporation, which is the parent undertaking of the largest group and the smallest to consolidate these financial statements. Copies of the consolidated financial statements of Knowles Corporation can be obtained at 1151 Maplewood Drive, Itasca, Illinois.