

**TT ELECTRONICS PLC**

**COMPANY NUMBER: 87249**

**ANNUAL REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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# Enhancing our opportunities

TT Electronics plc  
Annual Report and Accounts 2015

# Our purpose

To harness our leading expertise to engineer electronics that put our customers ahead.

TT Electronics is a global provider of engineered electronics for performance critical applications. We provide our customers with engineering support and expertise through our global network of specialists and world class facilities. Our experience and understanding of highly regulated markets enable us to continue to develop and deliver reliable products and solutions for our customers, helping them solve challenging problems to meet the needs of their customers.

More online  
[www.ttelectronics.com](http://www.ttelectronics.com)

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## 2015 highlights

### Revenue

**£509.9m**

2014: £524.3m  
(2)%<sup>2</sup>

### Operating Profit<sup>1</sup>

**£21.7m**

2014: £29.2m  
(30)%<sup>2</sup>

### Free Cash Flow

**£5.1m**

2014: £(22.5)m  
+123%

### Net Debt

**£(56.1)m**

2014: £(14.3)m

### EPS<sup>1</sup>

**8.8p**

2014: 12.9p  
(36)%<sup>2</sup>

### Dividend

**5.5p**

2014: 5.5p  
Nil change

### Strategic Progress

- Successful year of transition, establishing a stable business performance
- Good progress on new strategic plan, new streamlined organisation performing well
- Operational Improvement Plan largely complete – well ahead of schedule, £7 million lower cost
- Acquisition of Aero Stanrew for £42.2 million, extending our aerospace and defence capability

### Financial Headlines

- Organic revenue decline of 3% flat, excluding prior year one-off contracts in challenging markets
- Underlying operating profit in line with expectations
- OIP delivering benefits ahead of schedule, offsetting general industrial weakness
- Strong cash flow performance with excellent cash conversion
- Balance sheet strength maintained post acquisition of Aero Stanrew

<sup>1</sup> Underlying before restructuring, acquisition costs and asset impairment  
<sup>2</sup> Change at constant currency

# Our businesses

Across the divisions, our teams of specialists with years of experience focus on developing and delivering innovative advanced electronics to enable our customers to stay ahead of their competitors – by meeting the needs of their end customers and increasingly demanding regulatory standards

## Transportation Sensing and Control

The Transportation Sensing and Control division develops both sensors and control solutions for automotive OEMs and tier one suppliers including powertrain providers for passenger cars and trucks. The division develops a wide range of products for multiple applications on a vehicle, from power controls gear position and pedal sensors to fluid and emission sensors, with almost all of them focused on the safety and driver assistance features required by our customers.

**Main markets** Passenger cars, trucks, two wheelers

**Locations** Austria, China, Germany, India, Mexico, Romania, UK

**Revenue**  
£205.8m

**Operating loss**  
£(1.4)m

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## Industrial Sensing and Control

The Industrial Sensing and Control division addresses challenging sensing requirements in terms of precision, speed of response, reliability or the physical environment in which the products operate. Its position, pressure, temperature, flow and fluid quality sensors are used for critical applications in a range of end markets including industrial automation and process control, medical and aerospace.

**Main markets** Industrial, medical, transportation, oil and gas

**Locations** Mexico, UK, USA

**Revenue**  
£61.0m

**Operating profit**  
£11.4m

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## Advanced Components

The Advanced Components division creates specialist, high performance, ultra reliable, highly engineered electronic components for circuit protection, power management, signal conditioning and connectivity applications in harsh environments. It serves customers in the industrial, automotive, aerospace & defence and medical markets and focuses on creating value by developing innovative electronic solutions to challenging problems for our customers, electronic circuits or systems.

**Main markets** Aerospace and defence, industrial, transportation

**Locations** Barbados, China, Malaysia, Mexico, Tunisia, UK, USA

**Revenue**  
£95.3m

**Operating profit**  
£6.0m

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## Integrated Manufacturing Services

The IMS division draws on its manufacturing design engineering capabilities, global facilities and world class quality standards to provide highly complex electronic manufacturing solutions to customers. The business has broad capabilities ranging from printed circuit board assembly to environmental test and full systems integration. This global suite of end-to-end solutions is focused exclusively on low volume, high mix business.

**Main markets** Aerospace and defence, medical, industrial, transportation

**Locations** China, Romania, UK, USA

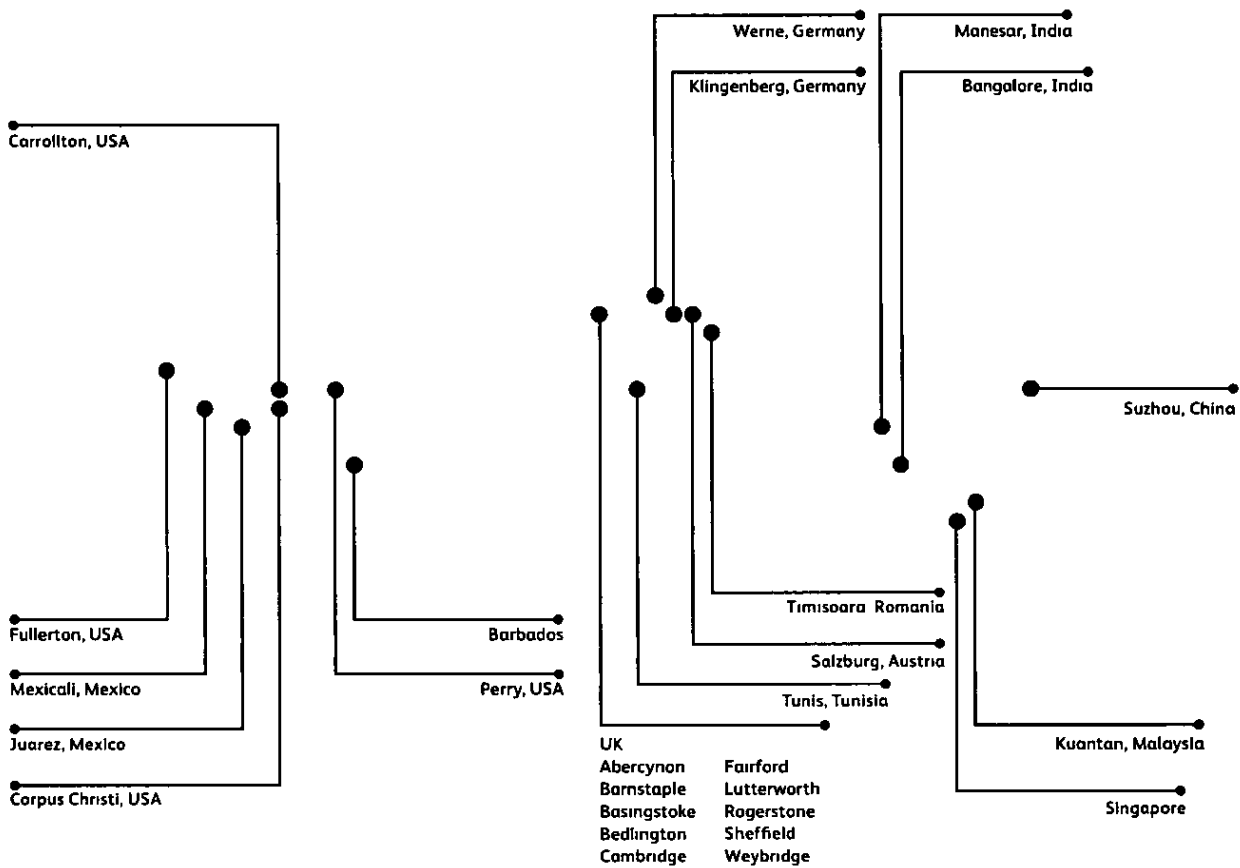
**Revenue**  
£147.8m

**Operating profit**  
£5.7m

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# Where we operate

We operate globally, with a sales, engineering and manufacturing presence in all major regions, making us well positioned to serve our customers worldwide.



Revenue by region (2015)

Revenue by market (2015)

# Refocusing and rebuilding

Neil Carson  
Chairman

2015 was a successful year of transition for TT Electronics, as we began the task of refocusing and rebuilding our business with a view to a return to sustainable profitable growth. In my first year as Chairman, I have been delighted to see the commitment shown by all parts of the business to the delivery of the strategic plan first outlined in last year's Annual Report. I believe that this has provided a solid foundation from which to unlock our potential and deliver improved value for our shareholders.

One of the key highlights of 2015 was the progress made in delivering the Operational Improvement Plan ('OIP'), involving the transfer of key product lines from Werne, Germany to Timisoara, Romania, which will be completed at lower cost than originally projected. This has enabled the business to redeploy its financial and human resources to focus on the task of simplifying its global operating footprint. These initiatives, together with the excellent cash conversion achieved in year, means that the Group has now

moved on to pursue growth opportunities in strategically important sectors. A good example of this is the acquisition of Aero Stanrew Group Limited, which was completed in December for a purchase price of £42.2 million (on a cash free debt free basis) and provides an excellent platform for future growth in aerospace and defence markets.

## 2015 results

Considering the scale of change put in place across the business during 2015, and despite the mixed market conditions, the overall performance of the Group was encouraging in the past year, and the Executive team has delivered what it set out to achieve.

The Board is recommending maintaining the final dividend at 3.8 pence. This, when combined with the interim dividend of 1.7 pence, gives an unchanged total dividend of 5.5 pence per share for the full year (2014: 5.5 pence per share).

### Strategic and operational progress

Given the business performance at the start of 2015, the Board and the Executive team re-examined the future direction of the business and launched a new strategic plan. This is now in place and the foundations for rebuilding the business have been laid, although there remains a significant amount of work to complete before the Group will return to sustainable profitable growth.

### Board changes

As announced in April last year, I took over as Chairman of the Group from Sean Watson immediately following the Company's Annual General Meeting in May. I am indebted to Sean for the leadership he has shown during his seven year tenure on the Board, which has left the Group well positioned to achieve its long term growth ambitions.

During 2015, we continued the process of embedding the changes to the senior management team described in last year's Annual Report. Following the appointment of Mark Hoad as Chief Financial Officer in January 2015, we remain focused on further strengthening the Board and have embarked on a recruitment process which is likely to culminate in the introduction of a new Non Executive Director later this year. The Executive Management Board has now been in place for over a year and Richard Tyson is responsible for ensuring that this team continues the process of focusing on the execution of the Group's strategic priorities in the coming year.

The Board, through the Remuneration Committee, is committed to ensuring that the Group operates in accordance with best practice regarding both the disclosure of directors' remuneration and the development of an effective executive remuneration strategy. The alignment between our strategic goals, KPIs and executive remuneration is set out in the Remuneration Report (see page 56 for more details).

### Our people

The execution of our new strategy would not be possible without the hard work and dedication of our people across all of our divisions. In what has continued to be a challenging environment across our core markets, I am delighted with the contribution made by our staff throughout the Group in the development and execution of the growth plans and strategic initiatives introduced last year, particularly in the areas of operational efficiency, supply chain improvement and health and safety management. On behalf of the Board, I would like to thank all of our employees who have made a contribution to these work streams and our business performance during 2015.

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**"Considering the scale of change during 2015, the performance of the Group was encouraging"**

### Looking forward

2015 was a year of transition, but significant progress has been made in refocusing our business, rebuilding a stable platform and putting the business on a trajectory for sustainable, profitable growth in the medium term. Recent events have revealed that the more challenging macro-economic environment first experienced during 2015 has intensified, as factors such as falling oil prices, uncertain Asian markets and a decline in the values of world stock markets have led to a loss in economic confidence. The Board believes that the actions taken in 2015, driven by the implementation of our new strategic plan, will help to meet these economic challenges head on, and allow us to strengthen our existing operating platform for the benefit of customers, investors and employees alike.

**Neil Carson**  
Chairman  
9 March 2016

# An encouraging start

**Richard Tyson**  
Chief Executive Officer

At the beginning of 2015 the business faced some major challenges and we recognised there were real complexities that we had to deal with and that needed managing carefully. Having completed the comprehensive business review, we understood these issues and subsequently the new team and I developed a clear set of strategic priorities. We set ourselves a clear, realistic and straightforward plan. That plan is now being executed across the Group. I am pleased to report that we have made an encouraging start and are seeing signs of good progress.

## 2015 performance

We set out to stabilise business performance and to work towards returning the business to sustainable, profitable growth. The new team has made good progress on all fronts. 2015 was always going to be a year of transition but in that context the overall business performance has been encouraging.

Group revenue for 2015 was £509.9 million (2014: £524.3 million) which equated to a 3 per cent decline on an organic basis. Although headline revenues reduced marginally in difficult markets we have delivered results

in line with our plans and our cash flow performance has been excellent. The Group's order book remains sound although recent weakness in our shorter cycle industrial market has resulted in the order book for the coming year being slightly lower than at the same time last year.

As expected, underlying operating profit declined by 26 per cent to £21.7 million (2014: £29.2 million). The reduction was in large part due to lower R&D capitalisation, which resulted in a £2.5 million increase in R&D expense at constant currency, the non-recurring £5.0 million of profit from large one-off orders in Industrial Sensing and Control and Advanced Components in 2014, and a £0.9 million increase in depreciation charge for capital investments made in prior years. There was a £1.4 million positive foreign exchange benefit. At constant exchange rates underlying operating profit declined by 30 per cent.

Cash flow has been a significant area of focus throughout the year. We delivered full year cash conversion of 136 per cent (2014: 3 per cent) and a free cash inflow of £5.1 million (2014: outflow £22.5 million). The improvement in cash conversion reflected tighter control of capital

expenditure and a £4.6 million working capital inflow (2014: outflow £16.8 million). Net capital expenditure totalled £16.8 million (2014: £28.0 million) and capitalised development expenditure was reduced to £1.3 million (2014: £6.8 million), equivalent in total to 0.9 times underlying depreciation and amortisation (2014: 1.6 times).

Closing net debt was £56.1 million (2014: £14.3 million) including the acquisition of Aero Stanrew Group Limited (Aero Stanrew). Net debt to EBITDA was 1.3 times as reported (2014: 0.3 times), and 1.2 times including the pro forma impact of Aero Stanrew.

The Operational Improvement Plan has clearly been a key area of focus for us in the year and we are really pleased with the progress made. For the Werne, Germany to Timisoara, Romania transfer, we originally intended to move 16 lines over the life of the project, with ten of those being transferred during 2015. In November we took the decision not to move four of the remaining lines as the expected benefits no longer justified the required level of spend. All twelve lines have now been moved and are customer qualified. The final step in the programme is to consolidate the footprint in Werne. The transfer of production from Fullerton, USA to Mexico was completed in the second half of 2015. Overall the Operational Improvement Plan is expected to be completed at a cash cost of circa £23 million, £7 million less than the original estimate, and full run rate benefits of £5.0 million per annum are now anticipated in 2017, a year earlier than originally expected.

As indicated in our November 2015 trading update with our shorter cycle industrial market facing businesses experiencing market weakness, our intention is to make footprint reductions. These plans are now well advanced and include relocating the last remaining production out of our Fullerton, USA site which will be transferred to Bedlington, UK. These measures will enable us to continue to invest in the business and future growth.

Having made significant operational progress, and with the balance sheet firmly under control, we felt able to move M&A up the agenda and in December announced the acquisition of Aero Stanrew for a total consideration of £42.2 million on a cash and debt free basis, of which £4.0 million was funded through the issue of new shares in TT Electronics to the management of Aero Stanrew who remain with the Group. The acquisition strengthens our position in growth areas in the aerospace and defence market and enhances our technology and product capabilities. The acquisition is expected to enhance earnings immediately and the return on invested capital to exceed TT's cost of capital in the second full year of ownership.

**"In difficult markets we have delivered results in line with our plans and our cash flow performance has been excellent."**

#### A year of important changes

We set out our strategic plan to improve TT Electronics performance across six priorities, delivering three outcomes to build sustainable, profitable growth and improve value for our shareholders. Having developed their execution plans in the first half of the year, the divisional management teams set about implementing the strategic priorities as outlined in the divisional reviews on pages 30 to 37.

We are seeing promising signs from the early phase of the roll out of our strategy. The action we have taken so far has helped to reset the business and restore our focus on our customers and on our shareholders, recognising that it will take time and concerted effort in order for us to achieve our potential.

With our renewed focus on our customers, we have already seen some real progress with new contracts and some brand new customers to TT that we are very proud of. For example:

- We successfully displaced an existing tier one manufacturer for the supply of an advanced next generation haptic pedal solution for a global premium automotive OEM. We delivered wins in China with three new contracts for accelerator pedals, an oil temperature sensor for a major Chinese transmission manufacturer and a crankshaft sensor leveraging an existing product design. We also won a global project for a new chassis height sensor based again on an existing TT design with initial launch in Europe and China.
- Across the Industrial Sensing and Control division we managed to largely off-set the large one-off contract position in 2014 through winning orders with new customers in specifically targeted new market segments in both electronic power steering systems and in our optical sensing business, ensuring the division delivered strong underlying performance.
- In Advanced Components, despite suffering from some of the macro economic weaknesses described elsewhere in this report in some of its core markets, the division secured a record level of new customer product positions for their components, giving confidence in their competitiveness and medium term potential.

## A new structure with new leadership

The reorganisation of TT started in 2014 and was completed in 2015. The new four division structure ensures focus on and responsiveness to our target markets and customers. Our new leaner structure also strengthens accountability and agility in decision making.

The new team members have blue chip industrial backgrounds and strong international experience. Most importantly, this is a team that is used to delivering growth in challenging situations. Another exciting change this year was the arrival of Neil Carson, the former Chief Executive of Johnson Matthey Plc. Neil joined the Board as Chairman in May 2015. He has a formidable reputation as a successful leader. His wealth of experience and proven track record of building successful businesses will no doubt help TT rebuild and unlock its potential. I would like to thank our previous Chairman, Sean Watson, for his support in my transition into the Group and with the changes to the Executive team.

### Employee engagement

In Spring 2015, we started to roll out our new plan, refreshed our purpose and set our course of actions through the six strategic priorities under the 'One TT' umbrella – underpinned by a new culture, the 'TT Way'. This series of changes was launched internally as 'BE TT', which denotes Build Expertise in TT.

I believe that successful strategic execution only happens with strong employee engagement, especially at site level. This is critical to the success of our plan. As a leadership team, we have put a lot of emphasis on communication and openness. Workshops and townhall communications were held at all of our sites to explain the strategy, address concerns and questions from our employees, as well as to ensure it was brought to life and owned locally.

The 'One TT' concept has been well received by our employees as they can see the potential of harnessing our expertise, as well as opportunities, from different parts of TT. There are an increasing number of examples of different business units or functions working together to help customers resolve challenges.

### The TT Way

As we put in place the new strategy, it was also very apparent we needed to develop a new culture to change the way we work and behave – from top to bottom. To guide us, we have developed a framework called 'The TT Way' – our aspired culture that is required to help us achieve our plan – consistently.

One of the key dimensions of the TT Way I'd like to highlight here is *we do the right thing*. We will build TT on a solid foundation with high standards of ethics and integrity. We talk about this a lot. I am keen that TT is an organisation that is committed and proactive in playing a positive role as a good corporate citizen. We can and will make a positive impact for our customers and the communities in which we operate.

### Operational efficiency

Lean is an area very close to my heart. In January, we established the Operations and Procurement Council to enable the leadership teams of different divisions to collaborate and to share experience, and to drive improvement globally. The Council launched TT's BE Lean programme by training 16 Master Lean Practitioners (MLPs), our first group. These practitioners worked together to implement a new standard in our first pilot site in October, and the results were remarkable given the first lean training session had only been held in June. The enthusiasm and motivation of the team was extremely encouraging and gave me great confidence in what this focus on lean will mean to our future. To build on the success in 2015, in 2016 we will be training more MLPs and carry out pilots in more sites to embed lean practices and enable the sharing of best practice and experience, focused on constantly improving TT's competitiveness.

### Research & development

More targeted and efficient R&D is one of our six strategic priorities. Without consistent and competitive R&D to address the new challenges in the market, we will lose our competitive advantage and more importantly, lose the trust our customers have placed in us. R&D is a critical strategic tool and asset to support and drive our long term

### Executive Management Board left to right:

Lynon Boardman, Group General Counsel & Company Secretary  
Candy Bowles, EVP Corporate Development & Strategy  
TC Chan, EVP IMS  
Tim Roberts, EVP Industrial Sensing & Control  
Richard Tyson, Chief Executive Officer  
Mark Hood, Chief Financial Officer  
Amrei Drechsler, EVP Transportation Sensing & Control  
Gareth Mycock, EVP Advanced Components  
John Leighton-Jones, EVP Human Resources  
Michael Robinson, EVP Operations & Supply Chain

growth. To me it is an important investment that needs to be protected and enhanced to secure leadership positions in our chosen areas of expertise.

Over the last two years we have increased our level of investment, changed how we manage our R&D and strengthened the R&D community across the divisions.

We have some great examples of new products launched in 2015 that target important areas for future growth. For example:

- We successfully launched our AdBlue® optical fluid sensor which is used to reduce NOx emissions for diesel exhaust systems, a key area of OEM focus to address legislative change. Our first mover advantage was reflected in securing our first customers in Korea, India and China.
- Our Industrial Sensing and Control division secured a development order from a large tier one customer for a new linear sensor for suspension systems.
- Our Advanced Components division rolled out a new high power current sense resistor for the industrial, medical and automotive markets in motor drive, battery monitoring and process control applications.

#### Growth

We have a well defined and disciplined approach to acquisitions, choosing to develop organically where possible, through product extension into new markets and gaining traction with existing customers. While we are making some major changes and rebuilding towards organic growth, we continue to explore other inorganic opportunities to accelerate growth in attractive markets where we can leverage our expertise to expand our market presence and enhance our offering to our customers.

#### Aero Stanrew acquisition

In December we acquired Aero Stanrew for a consideration on a cash and debt free basis of £42.2 million. Headquartered in Barnstaple, Devon, Aero Stanrew is a leader in the design and production of electromagnetic components and electronic systems for harsh environments and safety critical applications. The business is primarily focused on commercial aerospace and defence markets with sole source positions on key growing platforms, providing good visibility of future revenues. Aero Stanrew solves complex technical challenges in product areas and for a customer base which overlaps with a number of our businesses.

The combination of the two businesses provides the opportunity to accelerate our strategy by offering a wider range of capability to a broader base of tier one customers and increasing our exposure to aerospace and defence.

I am very pleased that the leadership team of Aero Stanrew have agreed to stay with the business and have taken a significant portion of their consideration as shares in TT Electronics, reflecting their commitment to and confidence in TT, and the opportunities we both see.

The acquisition will be reported as part of the Advanced Components division. It accelerates our strategy to return to sustainable, profitable growth and reflects our confidence that it is time to move on and create a platform for further growth.

#### A fundamentally good business platform

I am repeatedly reassured that we have a good set of businesses with good market positions. We are in the right space in our markets. The markets enjoy sustainable demand drivers for engineered electronic components. The increasingly stringent regulatory requirements (such as the imposition of higher CO<sub>2</sub> emission limits), and the demand for more efficient fuel or energy management by the end products produced by our customers, are all driving increased use of sophisticated electronics. To continue to offer cutting edge and versatile products to stay ahead of their competition, our customers – most of which are global leaders in their own sectors – require our engineers' support to develop more reliable, and more resilient products for harsh environment applications.

We have excellent customer relationships in transportation, aerospace and defence, and industrial markets. Our customers have reassured me that TT has helped them develop and deliver some of the most exciting products. Our team's deep expertise in the capabilities we offer and their passion is what makes us different. Knowing millions of our products are working reliably in some of the harshest environments makes me feel very proud.

What we need to do now is to unlock our potential, as one global team.

#### Outlook

We have made good early progress in executing the strategy we set out at the start of the year to stabilise the business and create a platform for growth. In difficult markets we have delivered results in line with our expectations. Our cash flow performance has been excellent. The acquisition of Aero Stanrew represents an important step in our development and growth.

The Operational Improvement Plan is largely complete and we will now make further changes to our operational footprint which will enable us to continue to invest in the business and future growth. Although we recognise that we are facing a tougher macro economic environment, the combination of our self help actions and the contribution from Aero Stanrew mean that we are on track to make progress in 2016. We remain confident in our ability to return the business to sustainable, profitable growth in the medium term.

**Richard Tyson**  
Chief Executive Officer  
9 March 2016

# Sizeable markets with encouraging demand drivers

The market for performance critical electronics based engineered products is showing healthy growth and TT is well positioned in it with proven expertise and strong customer relationships. Our solutions continue to perform with superior reliability to enable our customers' products to function and excel in their respective, often extremely demanding environments. Our wide range of products is applied in end markets including automotive, industrial, aerospace & defence and medical.

## Automotive

Automotive electronics is a core market for TT. Continued growth in car ownership in emerging markets, driven by rising disposable income and innovation driven replacement in more mature markets provide a positive macro environment. Regionally, Asia (especially China) is expected to see stronger growth than the rest of the world despite some market uncertainties. The Chinese car market is forecast to grow to 23.2 million new cars sold in 2020 up from 18.4 million cars in 2014.

Automotive electronics, a US\$218 billion market in 2014 is projected to reach over US\$300 billion by 2020. Within automotive electronics, safety control and power control are two sizeable and fast growing segments. Global demand in these two segments is about US\$75 billion and US\$38 billion respectively (recent four year CAGR 10 per cent and 9 per cent respectively).

As car users pay more attention to safety, driver experience and the comfort of the car, more intelligent and robust electronics, such as sensors, will be required. At the same time, to deliver energy efficiency through weight reduction, the in-car electronics need to be lighter and increasingly miniaturised. This implies higher packaging and interfacing complexity. The rising adoption of hybrid and electric vehicles also drives the use of batteries and therefore new opportunities for power control electronics. All of these dynamics are playing to the strengths and expertise of TT.

## Industrial

Industrial production is increasingly instrumented – measurement and control devices with more intelligent and interconnected systems are generating an unprecedented level of data. In 2015, the global industrial market saw some mixed dynamics while overall manufacturing output and capital expenditure were still expanding, albeit at a slower rate, investment in oil & gas and mining businesses declined.

Against this backdrop, the global industrial electronics market is expected to be worth over US\$320 billion by 2018, with semiconductor capital equipment, test and measurement instruments, automation systems and process control instrumentation the main applications. Regionally, Asia Pacific is expected to see around 17 per cent CAGR towards 2018 as China and other markets adopt industrial automation technologies at an accelerated pace. North America and Europe are only slightly less dynamic at about 15 per cent CAGR.

As manufacturers seek to improve efficiency and flexibility by deploying smarter, more automated ICT enabled production processes, underpinned by real time performance data, more reliable and precise electronics

based sensing and control applications will be required, which are TT's core capabilities

#### **Aerospace and Defence**

Aerospace and defence equipment and services was a US\$682 billion market in 2014, growing slightly after a decline in the previous two years. In the medium term the market is expected to see aircraft production ramping up to meet higher demand for air travel and stabilising orders from military owners/users. It is forecast that 60,300 new aircraft will be produced between 2015 and 2025. More than a third of these will be large commercial aircraft, the largest segment by value and one of the fastest growing at a 6.1 per cent CAGR (in unit terms) between 2015 and 2020. Lower oil prices usually support airline profitability and increased orders, although this could also lessen the pressure to upgrade aircraft to meet fuel emission requirements. Global emissions targets will still drive the demand for more fuel efficient new aircraft.

For the defence market, global spend is also forecast to increase by US\$89 billion between 2014 and 2018 to US\$1.69 trillion.

The aerospace and defence electronics market is expected to reach US\$248 billion by 2018.

Applications such as aeronautics, inflight entertainment avionics and engines are expected to drive the use of more sophisticated electronics. The replacement of hydraulics with electrical onboard systems, and the shift to lighter composite materials for the airframe, require power electronics based surge protection systems and electronic systems to support energy optimised flying. At the same time, military and public security systems are also adopting electronics for extreme high reliability and ultra accurate solutions in detection, identification or localisation. These are all opportunities for TT with its strong position in engine, flight control and power management electronics, as well as its deep expertise in high performance electronics more broadly.

#### **Electronic Manufacturing Services**

The global electronic manufacturing services market was worth US\$406 billion in 2014, and is forecast to grow to US\$505 billion in 2019 – a CAGR of approximately 4.5 per cent.

These positive market dynamics are driven by the underlying demand for ICT equipment, advanced medical devices, automotive sub-assemblies and electronic/electrical consumer products, as well as the OEMs' continued shift towards outsourced production for increased flexibility and cost advantages.

EMS providers are also increasingly positioning themselves as complete solution partners to their customers by adding supplementary services on other areas of design, engineering or supply chain. Geographically, TT's EMS division has a competitive global footprint and relevant certifications in place across its network of facilities.

Sources: Axis Research, Mund, CAR – Center Automotive Research an der Universität Duisburg-Essen, Deloitte, IDC, Strategy Analytics, Roland Berger

# Our business model

## We drive sustainable shareholder value through...

**Providing engineering support and expertise through our global network**

**Developing products for regulated markets in specialists areas**

**Delivering reliable products for harsh environment applications**

**Working closely with our customers to solve difficult problems and to meet their needs**

## We maintain our competitive advantage by .

**Strong focus on harsh environment/performance critical applications**

We work closely with our customers to develop and deliver electronics solutions that are fit for purpose – suited for the harsh environments where the end products operate continuing to perform reliably for mission critical applications Our high performing products enable our customers to stay ahead of their competition

**Highly relevant experience resolving customer challenges**

We bring a wide range and years of well tested expertise in engineering electronics to our customers We understand our customers' challenges We work closely and flexibly to respond to their situations We have proven capability in meeting stringent regulatory requirements in the specialised markets we serve

**Global performance, in many different ways**

The different cultural backgrounds of our teams enables us to support our customers in different geographical markets and gives them access to world class know how Our global footprint and experience gives us agility and opportunity to optimise our supply chain

## We work together in the TT Way

**We do the right thing**

**We bring out the best in each other**

**We achieve more together**

**We champion expertise**

**We get the job done**

We have developed and implemented a framework The TT Way – our aspired culture that will help us achieve our plan – consistently This framework describes TT at its best and is essentially about ensuring we have embedded the right behaviours whilst driving performance improvement.

**Strategy at a glance**  
Page 14

**KPIs**  
Page 15

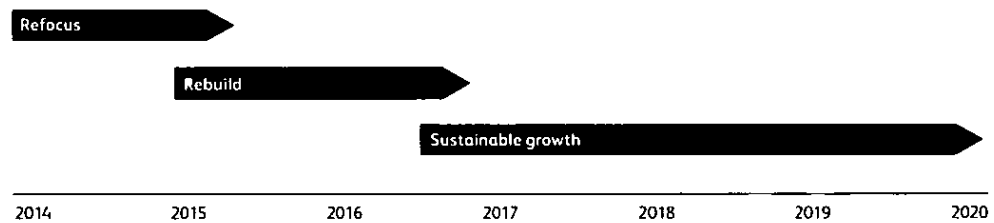
**Our risks**  
Page 24

# Our strategy

We launched our strategic programme in Spring 2015. The programme is underpinned by six strategic priorities, providing focus for investment and change. And we will measure our performance by the three outcomes. The new strategy is also a call to action for everyone in TT to work together as one TT

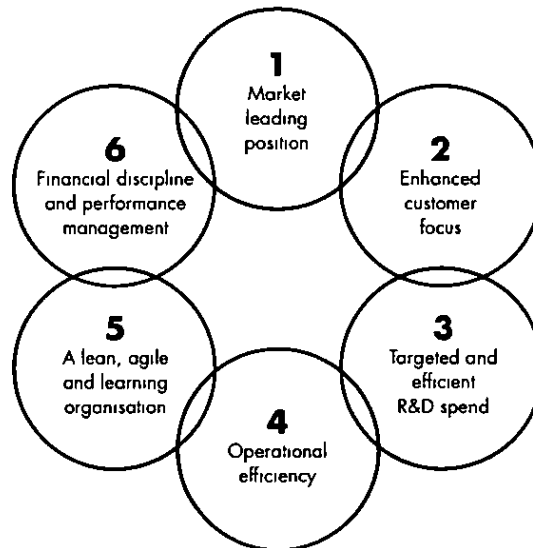
and to harness the expertise of the whole Group to build a more successful and sustainable future. The roll-out of the strategy consisted of a series of Group-wide engagement and communication activities throughout 2015

We will return to sustainable profitable growth in three phases



We focus our activities under six strategic priorities

Strategy in action  
Page 16



We measure ourselves on three outcomes

- Improved Customer Performance
- Improved Operational Performance
- Improved Returns and Cash Generation

# Our strategic priorities

We started our rebuild phase in the Spring of 2015 – focusing on strengthening TT, across six strategic priorities as a framework for action and direction. We have made an encouraging start and progress is evident in all areas. We continue to have a clear focus going forward.

## Strategic priorities

### 1. Market leading position

Focus on opportunities where our competitive advantages lie to grow our market share, in particular in new geographies and various end markets to balance our presence

### 2. Enhanced customer focus

Put our customers first and strengthen our partnerships. Proactively manage relationships to build and defend our leading supplier position. Improve our presence in key growth geographies

### 3 Targeted and efficient R&D spend

Drive continued innovation to ensure our competitiveness. Improve efficiency in our project management and engineering processes to help release funding for more product development

### 4 Operational efficiency

The benefits of achieving best in class operational performance are significant and key to our competitiveness. Improving global procurement practices and embedding Lean principles and tools are our key focuses

### 5 A lean, agile and learning organisation

Create a workplace where talented people can do their best and continue to develop while ensuring we have the right capabilities to deliver our strategic priorities

### 6 Financial discipline and performance management

Emphasis on transparency, openness and accountability in financial control and performance management

## Progress

Developed a better understanding of our core strengths in engineered electronics. Focused on opportunities where we are best positioned and can help our customers deliver the best end solutions to their customers, for example high performance resistors, heptic pedals, encoder chips

Improved our understanding of our customers and their requirements through "voice of customer" programmes. Introduced a stronger focus on building engineering led strategic partnerships, and increased our customers' visibility of TT's wider capabilities. Strengthened our resources in key growth geographies to improve our response and support to our customers (for further information, see the Divisional review on pages 30 to 37)

Revamped our R&D project management to improve transparency and efficiency and eventually the returns on our R&D investment. Begun the journey of encouraging cross divisional R&D collaboration – forums and resources are put in place to create a stronger R&D community for best practice sharing and more innovative problem solving

Established the Operations Council and the Procurement Council to drive best practice globally and to leverage our global scale

Developed our Lean model and trained the first class of 16 Master Lean Practitioners. Completed our Lean assessment at the sites (see Strategy in Action on page 20). OIP projects are ahead of schedule and will be completed for less than the original budget.

Reorganised to enable our workforce to better focus on our customers and the growth opportunities. The simplified structure has also strengthened accountability. Began to revamp our performance management framework to strengthen alignment of personal objectives and incentives to the Group strategy

Placed greater emphasis on all elements of working capital management and cash generation. Incentive targets are aligned to ensure that our spending is properly controlled. Cash conversion improved significantly during 2015 (see Financial review on page 39 for more information)

Introduced a new, standardised process to review budgets/forecasts, with a focus on transparency and challenge, and a greater emphasis on business insight

# KPIs

## 2016 priorities

Continue to focus on applications and end markets that have sustainable growth drivers and where our expertise can be best applied – such as safety critical applications in aerospace or automotive emissions reduction, demanding temperature environments or precision critical applications

Strengthen strategic account management  
Continue to strengthen capabilities and our coverage in high growth geographies  
Continue to build a more balanced customer portfolio

Complete the enforcement of the new R&D management framework  
Continue to build the TT R&D community to encourage and facilitate collaboration  
Launch more new products to market

Lean roll out through the next wave of sites in 2016  
More Master Lean Practitioner classes will be launched  
Review our procurement practices around the world  
Roll out new procurement practices globally including the implementation of strategic procurement practices and improve vendor assessment.

Complete the revamp of our talent management framework.  
Roll out the TT Way management framework and align behaviours with performance and incentives  
Align our capabilities and the strategic priority requirements through training

Continue to improve the control environment through a Group-wide process and controls improvement plan  
Drive process optimisation and automation where appropriate  
Strengthen tracking of other leading indicators market and other trend data

## Financial

### Organic revenue growth (%)

3% reduction largely as a result of the non recurrence of two large one off orders in the prior year

### Earnings per share (EPS) (p)

Reduction as expected due to the non recurrence of large one off orders reduced R&D capitalisation and increased depreciation

### Cash conversion (%)

Excellent cash conversion of 136% due to strong control over capital expenditure and working capital

### Return on invested capital (%)

Tight control of invested capital only partially offset the reduction in profitability in the year

## Non-Financial

### Safety performance (No of incidents)

Despite the lost time incidents being up slightly versus 2014 there was a marked improvement in the second half of the year as zero harm measures are gaining momentum

### R&D spend (% of sales)

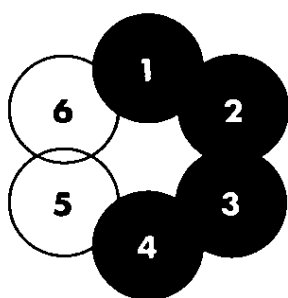
R&D spend as a percentage of sales has consistently increased since 2013 to drive innovation in areas where we have a competitive advantage

### Engagement score

Encouraging increase in employee engagement scores following the launch of our new business plan and strategic priorities under the 'One TT' umbrella  
An employee survey was not performed in 2014

Data for each of the Financial KPIs is provided on a three year basis. For Non Financial KPIs, data is provided on a two year basis. See the Glossary on page 132 for definitions

Our priorities in action



- 1 Market leading position
- 2 Enhanced customer focus
- 3 Targeted and efficient R&D spend
- 4 Operational efficiency

# Transportation – growing presence in the Chinese market

2015 has seen further opportunities in the growth market of China. We have built on the transfer of technologies with a high-performing local R&D team, strengthening relationships with our customers through more resources on the ground.

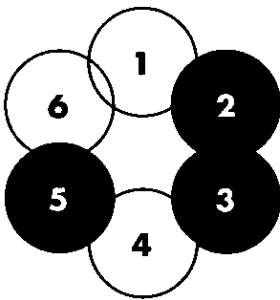
We benefit from validated and robust technologies which we are implementing together with our Chinese customers for their local applications and demands. We have a trusted technology portfolio that is highly regarded by our customers because of our high performance solutions and experienced teams.

Our Transportation Sensing and Control business is now benefiting from our investments into the market and customer contacts over the last years. Our biggest success is the relationship with the most important domestic transmission manufacturer and our reputation in the traditional European market was the driver for the recent domestic contactless pedal win.

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Our priorities in action



- 2 Enhanced customer focus
- 3 Targeted and efficient R&D spend
- 5 A lean, agile and learning organisation

# R&D with Delta Electronics

Enhanced customer focus and R&D with Delta Electronics Inc Industrial Business. We have enabled Delta to adopt a market-leading position with our optoelectronics technology, providing power electronics/energy management solutions

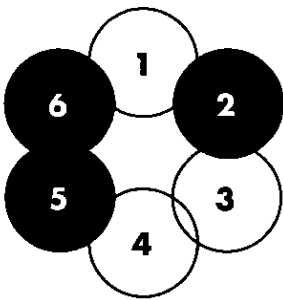
We have a strong track record with Delta after 10 years working with them on resistor technology. When Delta was looking for an encoder chip to get them in a market-leading position, they came to TT and we worked with their team from concepts through to the design of the end product.

TT did not have this as an existing product but targeted R&D, operational efficiency and team commitment ensured we developed the right product for the customer. Delta and TT have a strong partnership based on engineering expertise, trust and collaboration and both engineering teams worked together on challenging requirements with many specification changes. This was supported by our sales and operations teams.

For TT, the project and technology helps put us into the servo motor and robotics industry which is a fast growing market and establishes us as a market player in the encoder market which is the heart of the servo motor assembly.



Our priorities in action



- 2 Enhanced customer focus
- 5 A lean agile and learning organisation
- 6 Financial discipline and performance management

# Operational efficiency

Operational Efficiency and Enhanced Customer focus through our BE Lean programme – a group wide programme to apply Lean principles in our operations in 2015 TT launched its biggest operational plan to improve service and quality for its global customers

The “BE Lean” programme is focused on improving processes that deliver customer value through higher quality, speed and productivity. Following customer feedback we reviewed what was important to our customers and identified shortening of lead times and improving delivery performance as areas to drive improvement.

Sixteen Master Lean Practitioners participated in an eight week pilot at our Bedlington, UK site. These Master Lean Practitioners gained experience in implementing our lean operating system and tools in a high impact value stream. BE Lean helps to create a safe work environment for our employees, deliver quality and speed for our customers and productivity for our shareholders.

We are introducing Lean principles across all our locations to set consistent standards and make our operations more efficient. It is an essential part of doing what is required for our customers and for us to win and grow.

# Enhanced risk management underpins the successful delivery of our strategy

## Risk management

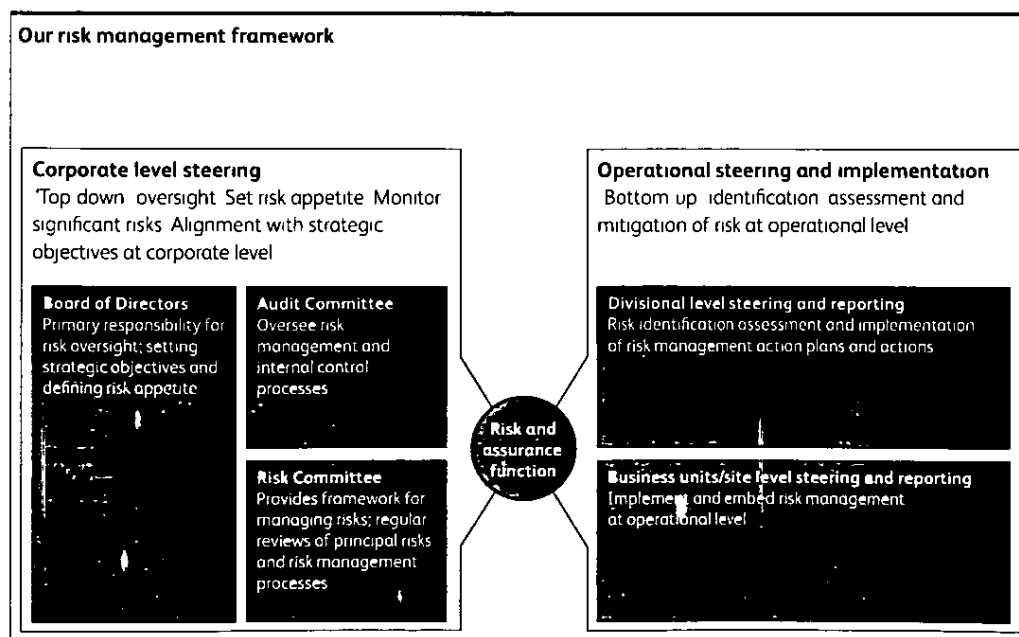
The Board of Directors is responsible for risk management and internal controls, supported by the Audit Committee and informed by the executive Risk Committee. The Board defines risk appetite and monitors the management of significant risks to ensure that the nature and extent of significant risks taken by the Company are aligned with overall goals and strategic objectives. The Risk Committee supports the Board and the Audit Committee in monitoring the exposure through regular reviews and has been delegated responsibility for reviewing the effectiveness of risk management processes and controls. The Internal Audit function was outsourced to PwC during 2015 to enhance the levels of resource and expertise available to the Group in specific areas, although its activities remain under the direction of the Executive team. The function assists the Risk Committee by advising management on improvements to the overall risk management framework, facilitating the risk review process and providing independent experience and input to the process.

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

Risk management and internal controls provide reasonable but not absolute protection against risk. Risk appetite is not static and is regularly assessed to ensure it continues to be aligned with goals and strategy.

## Risk profile

New and existing risks were identified and assessed during 2015. Executive management, the Risk Committee and the Board of Directors performed further analysis to prioritise these risks with a focus on those principal elements posing the highest current risk to the achievement of the Company's objectives or the ongoing viability of the business. Risks



assessed as higher priority are consolidated onto a Risk Heat Map. Risks included on the heat map are monitored more closely by the Group, recognising that whilst these "top risks" represent a significant proportion of the Group's risk profile, executive management and the Risk Committee continue to monitor the entire universe of potential risks to identify new or emerging threats as well as changes in risk exposure.

#### Risk management enhancements

In the last Annual Report, two particular issues were highlighted as having increased the overall risk profile of the business during 2014, namely poor forecasting processes and slower than anticipated progress in implementing the Group's Operational Improvement Plan. In 2015, our risk monitoring processes have identified good progress in delivering improvements in both of these areas during the course of the year, as a result of targeted mitigation. This improvement was also seen across other risk factors, including Health & Safety

management and on specific Financial risks (in particular Cash and Liquidity Management). Indeed, the analysis of the Group risk heat map identified a notable reduction in the number of "red" and "amber" risks overall, based on the specific mitigations that have been put in place during the course of the past year. It is recognised, however, that the risk relating to Economic Downturn, which was specifically incorporated into the risk register during 2015, increased during the second half of 2015 and that continued attention was required on 'Strategic Engagement', given the fact that the Group is only just moving into the second year of its new strategic direction. A further change in the way the Group operates its risk management processes during 2015 relates to the period of time over which key risks are assessed, which is now undertaken on a three year timeframe, to align with the time period selected by the Board for the viability statement set out below.

## Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the period to December 2018, taking into account the Group's current position and the potential impact of the principal risks and uncertainties set out on pages 24 and 25 of the Directors' Report. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2018.

The Directors have determined that the period to December 2018 represents an appropriate period over which to provide the viability statement as this aligns with the business cycle, including product development and order intake trends.

The Directors have taken the view that it is reasonable to assume (based on indications of interest received from the Group's existing relationship banks and the wider banking community) that the Group will be able to refinance its existing facility agreements on materially equivalent terms or better in advance of the maturity date of August 2017.

Whilst the Directors have no reason to believe the Group will not be viable over a longer period, given the inherent uncertainty involved, the Directors believe that this presents investors and other key stakeholders with a reasonable degree of confidence while still providing a longer term perspective.

In making this statement, the Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, the underlying mitigation planning, the assessment of future performance, solvency and liquidity, and the Group's internal controls environment.

In making the assessment of the Group's viability, the Directors have stress tested the Group's financial projections for the period covered by the viability statement, testing it for business as usual risks (such as profit growth and working capital variances) and severe but plausible events (occurring both individually and in unison), as well as a "reverse" stress test to understand the conditions which could jeopardise the future viability of the Group. The Group's wide geographical and sector diversification helps minimise the risk of serious business interruption or catastrophic reputational damage. Furthermore, the business model is structured so that the Group is not overly reliant on any single customer, market or geography.

Whilst this review does not consider all of the risks that the Group may face, the Directors consider that this stress testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

## Strategic Report / Principal risks and uncertainties

Link to strategy	Risk description	Potential impact	Mitigating action
	<b>General</b>		
1 6	General economic downturn Reduction in demand and orders	Decelerating sales growth affecting operating profit	<ul style="list-style-type: none"> <li>- Monitor the wider economic conditions of our geographical markets</li> <li>- Timely financial reporting to monitor performance and provide a basis for corrective action when required</li> <li>- Ongoing optimisation of our cost base</li> </ul>
	<b>Commercial</b>		
1 2 6	Contractual risks Potential liabilities from defects in performance critical products that often operate in extreme environments	Reputational impact Deterioration in customer relationships Liability claims Reduction in revenues, profitability and cash generation	<ul style="list-style-type: none"> <li>- Quality control procedures and systems in place and appropriate levels of insurance carried for key risks</li> <li>- Group guidelines on acceptable levels of contractual liability are reinforced</li> </ul>
1 2 6	Pricing and margin pressures Potential price down in contracts	Reduction in revenues profitability and cash generation	<ul style="list-style-type: none"> <li>- Good communications with customers to ensure understanding of their circumstances (eg design improvements)</li> </ul>
2 3 6	Research and development Delay in new product development which is intended to support revenue growth	Increased cost in product development Delay in achieving projected revenues Inability to meet the latest requirement due to step change in technology	<ul style="list-style-type: none"> <li>- Close collaboration with key customers</li> <li>- Active monitoring of costs and milestones</li> <li>- Target R&amp;D more effectively</li> <li>- Implementation of standard project management disciplines</li> </ul>
	<b>Operational</b>		
1 4 6	Health and safety Risk of a health and safety incident in the workplace	Potential injury to employees or visitors Regulatory action and legal claims Reputational impact Reduction in profitability	<ul style="list-style-type: none"> <li>- Enforce a zero tolerance attitude for safety related incidents at all levels</li> <li>- Three year roadmap put in place to strengthen health and safety compliance, including external audit locally developed specific initiatives put in place</li> <li>- Incident reports regularly reviewed by the EMB</li> <li>- Continued training to raise awareness and regular audits of facilities</li> </ul>

Link to strategy	Risk description	Potential impact	Mitigating action
	<b>Operational</b>		
5	People and capability Ability to attract and retain high quality and capable people	Loss of key personnel Potential business disruption Breakdown of communication and misalignment	<ul style="list-style-type: none"> <li>- Remuneration structure designed to support retention</li> <li>- Succession planning processes embedded within the businesses</li> <li>- Campaigns to increase performance and development of communication between managers and employees to ensure alignment on objectives</li> <li>- Develop feedback loop utilising surveys to encourage regular objectives and performance discussions</li> </ul>
1 2 4 6	Supplier resilience Potential failure of critical suppliers	Product delivery delays inability to meet customer commitments Reduction in revenues, profitability and cash generation	<ul style="list-style-type: none"> <li>- Regular review of key supplier financial health and product quality</li> <li>- Monitoring of relevant commodity and precious metals pricing</li> <li>- Review of spend patterns to identify opportunities</li> </ul>
	<b>Legal</b>		
1 2 3 4	Legal and regulatory compliance Intentional or inadvertent non compliance with legislation including laws and regulations covering export control anti bribery and competition	Reputational impact Civil or criminal liabilities leading to significant fines and penalties or restrictions being placed upon our ability to trade Reduction in revenues, profitability and cash generation	<ul style="list-style-type: none"> <li>- Cross division export compliance group established and anti bribery programme in place</li> <li>- Approach involves risk assessment, policy training, review and monitoring</li> <li>- Whistle blower process in place to ensure issues can be raised investigated and managed</li> </ul>

**Key**

- 1 Market leading position 2 Enhanced customer focus 3 Targeted and efficient R&D spend 4 Operational efficiency  
5 A lean agile and learning organisation 6 Financial discipline and performance management

# Our resources, relationships and responsibilities

TT values the diverse resources and relationships we have developed as they all play an integral role in our success. We also take our responsibilities as a corporate citizen, business partner and employer very seriously. We manage our resources, relationships and responsibilities within the principles of 'The TT Way'. We do the right thing, we achieve more together, we bring out the best in each other, we champion expertise, and we get the job done well.

## We do the right thing

### Making a difference in local communities

TT has a network of 27 locations. In many of these locations we are an important local employer. We encourage our workforce to play an active and constructive part in their local communities. In 2015 we engaged in a number of community activities around the world, which allowed our employees to develop close relationships with the localities in which they work.

Our partnership with Macmillan Cancer Support as Charity of the Year has reached its third consecutive year. This year, employees from all UK sites contributed via various events, including the World's Biggest Coffee Morning, the Mountain Trail Challenge, an Ice Bucket Challenge, the Jo Rees Memorial Cycle Ride and a climb to the top of Pen y Fan Mountain in South Wales.

In India, our employees have given much needed support for residents affected by the 2015 earthquakes and floods in areas of Nepal and East India. Our team has also funded the local charity GOONJ, which sent trucks containing emergency humanitarian assistance to affected areas.

In Timisoara, Romania, our employees embarked on an environmental campaign to clean up the city surroundings, creating a better neighbourhood for the local community.

Supporting education in the local communities is an important focus of our Corporate Responsibility programme. In Perry, USA, our employees held a three-week 'Stuff the Bus' drive to raise money and school

supplies for local children, which were distributed at the Lake County 'Back to School Bash'. In Gurgaon, India, we helped several educational organisations such as The RK Public School, which provides support for children from economically disadvantaged backgrounds, and the Khushboo organisation, supporting education for autistic/special needs children. TT has provided specialist equipment, including an electrical wheelchair, iPads and electronic equipment to support and enhance learning.

### Inspiring our next generation of engineers

As an employer, TT has benefitted from the engineering skills and expertise of our workforce. We are committed to play our part to invest in and develop future generations of engineers for our industry.

Our facilities take part in many local STEM (Science, Technology, Engineering and Mathematics) focused educational partnerships. In Lutterworth, UK, for example, we hosted a three-day school visit, with the objective of inspiring the engineers of the future. At our Fairford, UK site, we supported the STEM works organisation by welcoming six bright young students from the local area. The pupils from Stratton and North Cerney primary schools were given a VIP welcome by the Fairford team.

The Rogerstone team celebrate after completing the Jo Rees Memorial Cycle Ride for Macmillan Cancer Support.

Richard Tyson, CEO, and Mark Hood, CFO, opened the library of The RK Public School during their visit in November 2015

During their visit they toured the site and had the opportunity to develop their skills in computer aided design by using tools to make their own personalised key rings and specialised multi-core cables. Later in the year valuable manufacturing experience was added via a "Build and Program Robots" workshop at Northleach Primary School in Gloucestershire.

Additionally, for the first time in 2015, our employees in Malaysia organized TT Lab. This community education initiative gave first-hand experience of electronics to 500 school children, between the ages of 10 and 12, from eleven local schools. It was a true success which we look forward to continuing in the coming years.

Our employees can help to make a big difference to the communities we operate in, and our involvement also makes staff feel proud to be part of TT. The way our employees connect with and contribute to their local community is of great value and of mutual benefit.

**Ethics**

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

Whistleblowing issues are reported directly to management or through the Group's multi-lingual anonymous Ethics and Integrity portal. Significant issues are reported to the Audit Committee and in each instance, cases are investigated in detail and appropriate action taken.

Strong business ethics form the basis for our relationships with all of our key stakeholders including employees, customers, partners and suppliers. Our Statement of Values and Business Ethics Code sets out the operating principles to which we adhere, which cover a diverse range of issues including anti-bribery, information assurance, intellectual property protection, fair competition, the working environment (including standards of behaviour expected from our employees), hospitality/entertainment and avoiding conflicts of interest.

Day to day oversight of ethics and compliance related matters is undertaken through our Corporate and Social Responsibility Committee, which is supported by a dedicated Environmental, Health and Safety Committee under the leadership of our EVP Operations, Michael Robinson. For any matters of particular concern, an Ethics Committee is convened on an as-needed basis, constituted from members of the Executive Management Board.

**Human rights**

TT Electronics is committed to upholding the human rights of our workers and to treating them with dignity and respect as understood by the international community. Our Human Rights Code is contained within the EICC Code of Conduct (see below) and covers all workers including permanent, temporary, migrant, student, contract, direct and indirect. Our Code details expected labour standards covering freely chosen employment, child labour avoidance, working hours, wages and benefits, humane treatment, freedom of association and nondiscrimination.

We do not tolerate practices which contravene international standards. Regulatory demands upon us vary considerably around the world, however we have established a core structure to ensure that Group companies fully comply with legislative and regulatory requirements while permitting them to tailor their approach to particular local needs.

Everyone in TT is responsible for having due regard for human rights. Managers and supervisors must provide leadership that promotes human rights as an equal priority to other business issues. All employees are responsible for ensuring that their own actions do not impair the human rights of others and are encouraged to bring forward, in confidence, any concerns they may have about human rights.

**Upholding high standards – Electronics Industry Citizenship Coalition**

We maintain an active involvement with the Electronics Industry Citizenship Coalition (“EICC”)

The EICC’s Code of Conduct provides guidelines for performance and compliance in five critical areas: Environment, Ethics, Health & Safety, Labour and Management Systems. In particular, the Code of Conduct establishes standards to ensure that working conditions are safe, that workers are treated with respect and dignity and that business operations are environmentally responsible and conducted ethically.

All of our manufacturing facilities complete an EICC survey on a periodic basis, which measures performance and social practices, as well as the performance of social and environmental management systems. The most recent evaluation exercise demonstrated high levels of adherence to the Code of Conduct for sites across the Group, leading to them all being assessed as either ‘low’ or ‘medium’ risk.

**Compliance**

TT places a strong emphasis on business integrity and actively ensures that we operate in an environment in which innovation can flourish within a compliance and risk focussed culture.

During 2015, we have worked hard to develop a more integrated approach to governance, risk and compliance. Compliance with laws and regulation has been identified as one of our principal Group level risks, and is monitored on a regular basis by the Risk Committee, with appropriate mitigations being adopted as required. A practical example of the approach we have taken to compliance issues relates to the business adherence to international export control laws, where the Group’s products could have specific military or dual use applications. Given the Group’s focus on defence and aerospace, we have launched a dedicated training programme across our UK operations, followed by an audit programme and a refresh of our export control policies. This programme of work was largely completed in 2015, and will be supplemented by a similar programme for our US operations in 2016.

**We achieve more together**

**Treating our people with respect – equal opportunities and diversity**

TT is committed to employment policies that provide and promote equal employment opportunities for all our employees and applicants, and to maintaining a workplace that ensures tolerance, respect and dignity for all staff. No employee, applicant, contractor or temporary worker should be treated less favourably, victimised or harassed on the grounds of disability, sex, marital or civil partnership status, race, nationality, colour, ethnicity,

religion or similar philosophical belief, sexual orientation, age or any distinction other than merit. Consideration is always given to human rights principles as part of the Group’s working practices.

**Employees**

Our 5,875 employees are effectively our bank of expertise and through teamwork we make our business a success. TT’s workforce comprises a male population of 51 per cent and a corresponding female population of 49 per cent.

The table below provides a further breakdown:

Employees (full time equivalent)	Male	Female
Main Board Directors	6	0
Executive Management Board	6	2
Senior Manager (Ex EMB)	29	7
Austria	185	80
Barbados	27	86
China	396	462
Germany	413	405
India	33	6
Malaysia	61	298
Mexico	446	455
Romania	255	263
Tunisia	30	5
UK Total	815	477
USA	285	316
Other	16	10
<b>Total</b>	<b>3,003</b>	<b>2,872</b>

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

**We bring out the best in each other**

**Engaging our people**

As a global company, it is vitally important that employees, irrespective of where they are based, connect with BE TT, our strategy and vision. We believe engaged employees are critical to our success; our employees’ engagement and dedication have made TT a unique organisation.

In 2015, our Employee Survey received an overall response rate of over 70 per cent. Employees’ feedback suggested that we have made some good progress in all areas measured under the survey. In April 2015, we launched our new plan supported by a communication campaign. Results from our survey in October 2015 showed that over 65 per cent of our employees understood and believed in the new direction set out in the revised strategy. This feedback represents significant progress over prior years.

Employee engagement begins with fostering a culture that is open, transparent and collaborative. At all levels, we are committed to encouraging a high degree of openness and equality which will continue to enhance our culture. We strive to maintain engagement of employees at all points from application through to the retirement process. We approach every interaction with openness, honesty and integrity. Strong relationships built on trust are at the core of what we do. Collaboration across the Group and beyond assists our ability to gather important insights and ideas, improving the way we conduct our business and serve our customers.

In 2015, we continued to make significant progress to connect with our employees at all levels.

Employees are provided with a wide range of opportunities and communication channels to enable them to understand the plans and objectives of the Group. For example, all managers are encouraged to attend the quarterly webcast presented by the Chief Executive Officer and Chief Financial Officer and to cascade pertinent messages to their teams.

Managers and employees alike are also encouraged to promote and role model the TT Way. Collectively, we create a more positive workplace. During 2015, over 1,200 'Thank You' cards were issued through our global recognition programme 'Inspire', which acknowledges individual and team contributions through monthly recognition awards, quarterly exceptional awards and bi-annual Chief Executive awards.

Our 2015 engagement survey highlighted the need to further develop our managers in a consistent way. The 'TT Way of Management' was created in the Autumn, and the roll out to all sites will continue in 2016. This will provide an excellent foundation for driving performance and strengthening engagement with our people.

Alongside organisation-wide development programmes, we also provide a variety of tailored, local training and development opportunities. Our Master Lean Practitioner training is a great example. In the Autumn, our 16 Master Lean Practitioners completed their second round of training and conducted their pilot in Bedlington, supported by the CEO.

Globally, we pull together our leading experts to share knowledge and experience and to help shape the direction of travel. A good example of this was the two-day R&D conference held in November, where our brightest minds discussed and shared their views on the future and our opportunities, and developed the internal network.

Building on the momentum we have generated during 2015, in 2016 we will continue to remain focused on developing our people while strengthening employee engagement to build a stronger and more successful One TT.

The 2015 Strategic Report, from page 1 to page 41, has been reviewed and approved by the Board of Directors on 9 March 2016.

## We champion expertise

### Training and developing our people

Building Expertise lies at the heart of our growth strategy and the 'deal' we have with our employees. Personal development is as important to TT's future success as it is to furthering individual careers.

We continue to invest heavily in the training and development of our people. We believe strongly in equipping our people with the right skills to do their jobs effectively, encouraging them to develop to their full potential.

In August, we began the journey to embed an integrated talent framework, to increase the focus on how we manage and develop the talent in our business.

Our Leadership Conference in Spring 2015 highlighted a desire amongst our senior managers to strengthen their change management capabilities, to make the new strategy happen. Over a dozen training sessions were run globally for around 120 senior managers, looking at how TT is experiencing change and how we can better work together to lead the workforce through that change.

**Richard Tyson**  
Chief Executive Officer

**Mark Hoad**  
Chief Financial Officer  
9 March 2016

# Transportation Sensing and Control

The Transportation Sensing and Control division develops both sensors and control solutions for automotive OEMs and tier one suppliers including powertrain providers for passenger cars and trucks. TT develops a wide range of products for multiple applications on a vehicle, from power controls, gear position and pedal sensors to fluid and emission sensors, with almost all of them focused on the safety and driver assistance features required by our customers.

**Results for Transportation Sensing and Control**

	2015	2014	Change	Change constant fx
Revenue	<b>£205.8m</b>	£230.5m	(11)%	(3)%
Underlying operating profit <sup>1</sup>	<b>£(1.4)m</b>	£1.4m	(200)%	(171)%
Operating profit margin <sup>1</sup>	<b>(0.7)%</b>	0.6%	(130)bps	(100)bps

<sup>1</sup> Excluding restructuring costs, asset impairments and acquisition related costs

**Revenue**  
**£205.8m**  
**Operating loss<sup>1</sup>**  
**£(1.4)m**

Revenue in the Transportation Sensing and Control division in 2015 was £205.8 million (2014: £230.5 million), a decrease of 3 per cent on an organic basis as a result of contractual price downs of circa 2 per cent and modest volume reductions. There was an adverse foreign exchange impact of £18.6 million.

There was an underlying operating loss for the period of £1.4 million compared with a profit in the prior year of £1.4 million, but the operating performance of the division is showing signs of improvement. Having moved from profit into loss in the second half of 2014 (H2 2014 loss: £0.9 million), the performance was stabilised in the first half of 2015 (H1 2015 loss: £0.9 million) and before exchange movements moved back to break even in the second half of the year. Foreign exchange movements increased the operating loss by £0.4 million, all of which impacted the second half of the year. There was an operating margin of minus 0.7 per cent (2014: 0.6 per cent). The reduction compared to the prior period was driven by increased R&D expense. The impact of price downs was offset by productivity improvement and cost reductions.

Transportation Sensing and Control made good strategic progress in the year through their focus on customer needs. There was a series of contract wins in target growth markets and with new customers. In the first half we successfully displaced an existing tier one manufacturer for the supply of an advanced next generation haptic pedal solution for a global premium automotive OEM. We delivered wins in China with three new contracts for accelerator pedals, an oil temperature sensor for a major Chinese transmission manufacturer and a crankshaft sensor leveraging an existing product design. We also won a global project for a new chassis height sensor based again on an existing TT design with initial launch in Europe and China.

The division also made good progress in product innovation, securing a development order from a large tier one customer for a new linear sensor for suspension systems. We also extended our capabilities in high temperature sensors via the purchase of capital equipment from a supplier.

We also successfully launched our AdBlue<sup>®</sup> optical fluid sensor, which is used to reduce NOx emissions for diesel exhaust systems, a key area of OEM focus to address legislative change. Our first mover advantage was reflected in securing our first customers in Korea, India and China.

In March the division's Salzburg operation won the Austrian national award for innovation for its Power Stack development, a cooled chip stack module with double-sided soldered semiconductors. The Power Stack module utilises a design which optimises electrical mobility by balancing the issues of thermal management, weight and size versus power and cost – an area of increasing importance with the increasing electrification of engines and vehicles in general.

TT is responding to the demands of the automotive industry by migrating its premium LED headlamp platform to the mainstream mid-size car market.

Automotive LED headlamp systems generate a lot of heat during operation and traditionally this is countered by using additional materials for cooling such as heat sinks, air coolers or heat pipes that add system weight and cost.

TT has counteracted these challenges by delivering a high performance, lightweight thermal management system based on its proprietary thick film substrate process technology, together with highly optimised mechanical design, both of which are core competencies of its award-winning Salzburg Engineering Centre.

The resulting technology provides the advantage of a significantly reduced bill of materials cost and weight for cooling LED headlamp systems, enabling our customers to offer improved features whilst remaining competitive on price and emissions reduction.

# Industrial Sensing and Control

The Industrial Sensing and Control division addresses challenging sensing requirements in terms of precision, speed of response, reliability or the physical environment in which the products operate. Its position, pressure, temperature, flow and fluid quality sensors are used for critical applications in a range of end markets including industrial automation and process control, medical and aerospace.

**Results for Industrial Sensing and Control**

	2015	2014	Change	Change constant fx
Revenue	<b>£61.0m</b>	£58.8m	4%	(3)%
Underlying operating profit <sup>1</sup>	<b>£11.4m</b>	£12.8m	(11)%	(18)%
Operating profit margin <sup>1</sup>	<b>18.7%</b>	21.8%	(310)bps	(330)bps

<sup>1</sup> Excluding restructuring costs, asset impairments and acquisition related costs.

**Revenue**  
**£61.0m**

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**Operating Profit<sup>1</sup>**  
**£11.4m**

Divisional revenue of £61.0 million showed an organic decline of 10 per cent (2014: £58.8 million), mainly due to the non-recurrence of a material one-off order for steering position sensors in 2014. Excluding this impact, like-for-like revenues increased by 4 per cent. There was a favourable foreign exchange impact of £4.1 million and a £4.0 million incremental revenue impact from the Roxspur acquisition.

Underlying operating profit for the year was 11 per cent lower at £11.4 million (2014: £12.8 million). Excluding a favourable foreign exchange impact of £0.9 million, the reduction amounted to 18 per cent. The absence of the prior year one-off order which accounted for £4.0 million of operating profit, was partially offset through new orders and some initial modest benefits from the transfer of activity from Fullerton to Mexicali, which was completed in the second half of the year. The incremental contribution of Roxspur was £0.3 million. Operating margins reduced by 310 basis points to 18.7 per cent (2014: 21.8 per cent).

The division secured a number of key programme wins in the year as a result of its focus on providing engineered solutions for challenging applications. In our core industrial markets we shipped the first production order for our latest phase diode array, a critical component used in robotic position sensors. Working closely with a major customer we designed a custom optical sensor with increased ambient light immunity to meet a specific application need, resulting in the award of business on their next generation platform which is expected to be in volume production from 2016 for a minimum of four years. The division also secured a number of new wins

with its position and torque sensors used in electronic power steering systems ('EPS') by focusing on the recreational and off-road vehicle markets where the deployment of EPS systems is increasing. During 2015 we secured a number of new multi-year programmes with customers in the USA and Asia.

The integration of the Roxspur business is now complete and we are starting to see the benefits of leveraging our wider electronics expertise with the business developing a new range of pressure products, the first of which is now available to customers. Roxspur has been impacted by the broader slowdown in the oil and gas sector and as a result the £2.5 million contingent consideration will not now become payable.

**TT's service and calibration business, offering both on site and laboratory calibration and testing services, expanded further into Europe in 2015.**

TT serves more than 200 customer sites and is able to provide in-house calibration to either UKAS or traceable national standards covering temperature, flow, pressure and electrical parameters.

The service is particularly valuable for customers serving the aerospace supply chain. The aerospace prime contractors demand that their global supplier base conforms to NADCAP/AMS 2750 specification, the driving standard for aerospace manufacturing. TT has developed knowledge and expertise in this area for over 20 years and with a training programme aligned with the evolving standards, is well positioned to consolidate its global position.

In 2015, we were also awarded Safecontractor status, which recognises our commitment to safety, quality and excellent on site working.

# Advanced Components

The Advanced Components division creates specialist, high performance, ultra-reliable, highly engineered electronic components for circuit protection, power management, signal conditioning and connectivity applications in harsh environments. It serves customers in the industrial, automotive, aerospace, defence and medical markets and focuses on creating value by developing innovative electronic solutions to challenging problems for our customers' electronic circuits or systems

**Results for Advanced Components**

	2015	2014	Change	Change constant fx
Revenue	<b>£95.3m</b>	£98.8m	(4)%	(7)%
Underlying operating profit <sup>1</sup>	<b>£6.0m</b>	£9.5m	(37)%	(38)%
Operating profit margin <sup>1</sup>	<b>6.3%</b>	9.6%	(330)bps	(320)bps

<sup>1</sup> Excluding restructuring costs, asset impairments and acquisition related costs.

**Revenue**  
**£95.3m**

**Operating Profit<sup>1</sup>**  
**£6.0m**

Advanced Components revenues declined by 4 per cent to £95.3 million (2014: £98.8 million) with an organic reduction of 7 per cent reflecting a weaker second half performance from the resistors market and the prior year's £2 million of non-recurring revenues associated with the closure of the Smithfield USA facility. There was a positive foreign exchange impact of £3.1 million.

There was a reduction in underlying operating profit to £6.0 million (2014: £9.5 million). The reduction was a result of the absence of the high-margin non-recurring orders, increased depreciation from 2014 investments and the reduction in demand for resistors products. There was a £0.1 million favourable foreign exchange impact. Operating margins decreased by 330 basis points to 6.3 per cent (2014: 9.6 per cent).

Advanced Components released a number of new products during the year, further enhancing its position as a leader in circuit protection, detection and power management. Successful launches included a high power current sense resistor for the industrial, medical and automotive markets in motor drive, battery monitoring and process control applications; passive components which have been ordered by all three manufacturers of state of the art smart meters; and high-performance custom inductors for a major tier one automotive supplier to the truck market.

In late 2014, Advanced Components extended its long term agreement with Controls and Data Services. In support of this agreement, a new clean room facility to supply multi-chip modules for fuel management systems on aircraft engines was constructed during the year and opened in early 2016. This has also positioned the division well to accept the transfer of production from Fullerton, USA as part of the additional footprint rationalisation, establishing Bedlington as a centre of excellence for such products.

The acquisition of Aero Starnew in December was an important step in the development of the division. Aero Starnew solves complex technical challenges in product areas and for a customer base which overlap with a number of our businesses. The combination of the two businesses provides the opportunity to accelerate our strategy by offering a wider range of capability to a broader base of tier one customers and increase our exposure to aerospace and defence. For the calendar year ending 31 December 2015, Aero Starnew delivered revenues of £17.4 million and EBITDA of £3.6 million.

TT's MCA components are being increasingly used in high profile space applications. This unique space saving, cost effective technology offers a light weight and improved reliability alternative to conventional discrete circuits and recently secured an order for the new Jason 3 satellite. Jason-3 is the fourth in a series of US-European satellite missions that are intended to measure the height of the ocean surface. The mission will extend the time series of ocean surface topography measurements, the data then collected by the satellite from its secure orbit of 1336 km above the Earth will provide scientists with critical information regarding circulation patterns. It is expected that being able to measure with such accuracy will enable better projected forecasting of climate change implications and potential flooding risks to vulnerable regions around the globe.

# Integrated Manufacturing Services

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

**Results for Integrated Manufacturing Services**

	2015	2014	Change	Change constant fx
Revenue	<b>£147.8m</b>	£136.2m	9%	4%
Underlying operating profit <sup>1</sup>	<b>£5.7m</b>	£5.5m	4%	(11)%
Operating profit margin <sup>1</sup>	<b>3.9%</b>	4.0%	(10)bps	(50)bps

<sup>1</sup> Excluding restructuring costs, asset impairments and acquisition related costs

**Revenue**  
**£147.8m**

**Operating Profit<sup>1</sup>**  
**£5.7m**

Revenue in IMS increased to £147.8 million (2014: £136.2 million) an organic increase of 4 per cent driven by strong demand in the USA and China. There was a positive foreign exchange impact of £6.2 million.

Underlying operating profit for the year increased by 4 per cent to £5.7 million (2014: £5.5 million) and reduced by 11 per cent on a constant currency basis. Foreign exchange movements increased operating profit by £0.8 million. Operating margins reduced by 10 basis points to 3.9 per cent (2014: 4.0 per cent). There was a substantial adverse mix impact in the first half of the year, but as expected this largely reversed in the second half of the year. The reduction in underlying operating profit was a result of a higher allocation of central costs related to the increase in revenues.

The growth in revenues in China were supported by contract wins supplying into metro train systems and narrow body aircraft domestically, together with the benefit of a global contract renewal with one of the division's largest customers. This contract renewal also supported demand in the USA along with a production extension for a major defence customer.

In the first half, IMS was chosen by L3 as a partner to support the design and prototyping for a new product to help aircraft operators take advantage of the Next Generation Air Transportation System traffic management standards. Following this award, IMS successfully demonstrated its ability to transfer production from the USA to China, positioning it well to support future demand growth in the region.

IMS continued to maintain its accreditations successfully passing a number of major customer audits as well as renewing its NADCAP certifications across the division. IMS also continued to be recognised by its customers, receiving the Carestream Supplier of the Year award in Suzhou, China and Cubic Defense's Supplier Excellence Award in Perry, Ohio.

**Enhanced customer focus and R&D with Delta Electronics Inc. Industrial Business** We have enabled Delta to adopt a market-leading position with our optoelectronics technology, providing power electronics/energy management solutions. We have a strong track record with leading industrial automation business, Delta, after 10 years working with them on resistor technology from our Advanced Components business. When Delta was looking for an encoder chip to get them in a market leading position, they approached TT and we worked with their team from concepts through to the design of the end product. This was not an existing portfolio product but targeted R&D, operational efficiency and team commitment ensured we developed the best solution that met Delta's requirements. Delta and TT have a strong partnership based on engineering expertise, trust and collaboration and the engineering teams worked together on challenging requirements with a series of specification changes. This was supported by Sales and Operations teams in TT locations in Texas, Taiwan and Singapore, who also worked closely, over a 4 year period to make this happen. For TT, the success of delivering for Delta and developing new technology helps put us into the servo motor and robotics industry which is a fast growing market, and establishes us as a market player in the encoder market which is the heart of the servo motor assembly.

# Encouraging cash flow performance and a strong balance sheet

**Mark Hoad**  
Chief Financial Officer

## Financial Headlines

- Organic revenue decline of 3%, flat excluding prior year one-off contracts in challenging markets
- Underlying operating profit in line with expectations
- OIP delivering benefits ahead of schedule offsetting general industrial weakness
- Strong cash flow performance with excellent cash conversion
- Balance sheet strength maintained post acquisition of Aero Starrew

KPIs  
Page 15

As set out in the Chief Executive Officer's review (on pages 6 to 9), the trading performance in 2015 was a marked reduction from 2014 with underlying operating profit down 26 per cent as reported and down 30 per cent at constant exchange rates

External revenue and underlying operating profit were however in line with our expectations for the year. As part of the strategic priority of financial discipline and performance management, quality forecasting and delivering on our commitments are at the heart of what we are determined to embed in our business operations.

Cash flow was a significant area of focus throughout the year. We placed a lot of emphasis on the need to bring cash consumption under control and to be disciplined in the way the divisions invest capital and I have been very pleased with the way that the businesses have responded.

In 2014 we saw a significant free cash outflow of £22.5 million, so it is very encouraging that our focus on cash meant that we ended the year with a free cash inflow of £5.1 million. The improvement came across all areas of the cash flow statement with tight control over capital expenditure, working capital and restructuring costs.

This improvement in our net debt position was a key factor in concluding we were in a position to proceed with the acquisition of Aero Stanrew Group Limited in December.

**"Cash flow was a significant area of focus in 2015, and cash conversion was excellent at 136%"**

Cash conversion, which measures how effective we are at converting operating profit into operating cash flow, is a key metric for us and the full year performance of 136 per cent (2014: 3 per cent) was excellent. The improvement in cash conversion reflected tighter control of capital expenditure and a £4.6 million working capital inflow (2014: outflow £16.8 million). Net capital expenditure totalled £16.8 million (2014: £28.0 million) and capitalised development expenditure was reduced to £1.3 million (2014: £6.8 million), equivalent in total to 0.9 times underlying depreciation and amortisation (2014: 1.6 times).

Having got a grip on the cash performance of the business, we have exited the year having completed the Aero Stanrew acquisition but with the balance sheet still strong. Net debt at the end of the period was £56.1 million (2014: £14.3 million) and net debt to underlying EBITDA on a reported basis was 1.3 times (2014: 0.3 times) and 1.2 times including the pro forma impact of Aero Stanrew.

## Other Financial Matters

### Exchange Rates

The exchange rates used to translate the key non-Sterling flows and balances were:

Exchange rates	2015	2014	2013
Euro – average rate	1.37	1.24	1.18
Euro – closing rate	1.36	1.28	1.20
USD – average rate	1.53	1.65	1.57
USD – closing rate	1.47	1.56	1.66

### Non-underlying Items

These items are presented separately in the income statement where the Directors believe that they require separate disclosure by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance.

Total restructuring costs, asset impairments and acquisition related costs amounted to £5.4 million (2014: £33.5 million). Included within this charge were restructuring costs of £2.9 million (2014: £22.2 million) which related principally to the Operational Improvement Plan and costs related to organisational and leadership team changes.

Asset impairment costs of £1.7 million (2014: £9.4 million) were incurred relating mainly to the North American resistors business, reflecting the downturn in activity experienced in the second half of the year.

Acquisition related costs amounted to £0.8 million (2014: £1.9 million) and included acquisition related costs, non-cash amortisation of acquisition intangibles and the reversal of contingent consideration on the Roxspur acquisition and deal costs.

The cash outflow in the year associated with these items was £10.1 million (2014: £13.0 million).

#### Acquisitions and Disposals

On 18 December 2015 the Group announced the acquisition of Aero Stanrew Group Limited ("Aero Stanrew") for a consideration of £43.8 million with £1.6 million of cash in the business

Aero Stanrew is a leader in the design and production of electromagnetic components and electronic systems for harsh environments and safety critical applications. The business is primarily focused on the commercial aerospace and defence markets with sole source positions on key growing platforms, providing good visibility of future revenues. The fair value of assets acquired was £21.4 million (including intangible assets of £18.9 million) resulting in goodwill of £22.4 million being recognised on acquisition.

#### Interest

There was a £0.9 million increase in the net interest expense to £2.5 million (2014: £1.6 million) primarily as a result of higher interest costs associated with higher debt. Whilst interest cover reduced to 19.9 times (2014: 64.4 times) as a result of the increased interest cover and reduced EBITDA, it remained significantly above the covenant minimum level of 4.0 times.

#### Tax and Earnings Per Share

The underlying effective tax rate of 27.0 per cent was slightly higher than the prior year (2014: 25.7 per cent) and basic underlying earnings per share decreased by 32 per cent to 8.8 pence (2014: 12.9 pence) and by 36 per cent at constant currency.

The basic earnings per share from continuing operations was 6.5 pence (2014: loss 6.6 pence).

#### Dividends

The Board is recommending an unchanged final dividend of 3.8 pence (2014: 3.8 pence) which, when combined with the interim dividend of 1.7 pence, gives an unchanged total dividend of 5.5 pence per share for the full year (2014: 5.5 pence per share).

#### Pensions

The Group operates one significant defined benefit scheme in the UK and overseas defined benefit schemes in the USA. These schemes are closed to new members and are closed to future accrual. Given the material nature of the UK scheme, the Group has developed a comprehensive strategy to manage the financial risk associated with it:

- Maintaining a long term working partnership with the Trustee to ensure strong governance of risks within the UK scheme. The UK scheme is a long term undertaking and is managed accordingly in order to provide security to members' benefits and value for money to the Group.
- A prudent investment strategy is pursued by seeking risk rewarded long term returns whilst removing the majority of liability mismatching unrewarded risks. As such, the Group has in place financial hedging that removes the majority of interest rate yield and inflation risk. This reduces the expected impact of a 25bps fall in yields from a circa £13 million increase in deficit down to a circa £5 million increase, thereby reducing volatility. This strategy has been in place for a number of years protecting the UK scheme's position since December 2013 when yields commenced a prolonged decline.
- The Group recognises that seeking rewarded risk returns in its investment strategy could lead to short term fluctuations in funding levels depending on market conditions. The Group considers that by maintaining a good relationship with the Trustee, it will be able to utilise flexibility in the funding regime to even out the impact of short term market underperformance to enhance predictability of Group pension contributions. This creates a suitable balance between the needs of the UK scheme, the Group and the members.

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

£million	2015	2014
Fair value of assets	<b>435.0</b>	458.2
Liabilities	<b>(453.1)</b>	(468.7)
Deficit – UK scheme	<b>(18.1)</b>	(10.5)
Overseas schemes	<b>(3.0)</b>	(1.9)
Total Group deficit	<b>(21.1)</b>	(12.4)

The triennial valuation of the UK scheme as at April 2013 showed a deficit of £19.1 million compared with £39.4 million at April 2010, representing a funding level of 96 per cent compared with 89 per cent previously. It was agreed with the Trustee that the existing recovery plan is sufficient to address the deficit. Contributions of £4.3 million were paid during the year and will increase by £0.2 million to £4.5 million in 2016. In addition, the Company set aside £3.0 million to be utilised in agreement with the Trustee for reducing the long term liabilities of the scheme. The next triennial valuation is due to be undertaken during the coming year with a valuation date of 31 March 2016.

#### Financial Risk Management and Treasury Policies

The main financial risks of the Group relate to funding and liquidity, interest rate fluctuations and currency exposures. A central treasury department that operates according to objectives, policies and authorities approved by the Board, manages these risks.

The overall policy objective is to use financial instruments to manage financial risks arising from the underlying business activities and therefore the Group does not undertake speculative transactions for which there is no underlying financial exposure. More details are set out in note 20 to the Consolidated Financial Statements.

#### Funding and Liquidity

The Group's operations are funded through a combination of retained profits, equity and borrowings. Borrowings are generally raised at Group level from a group of relationship banks and then lent to operating subsidiaries. The Group maintains sufficient available committed borrowing facilities to meet any forecasted funding requirements.

Net debt at the end of the year was £56.1 million (2014: net debt £14.3 million). During the year the UK revolving credit facility commitment has been increased from £45.0 million to £75.0 million and the US Bi laterals from \$40 million to \$60 million giving total long term committed facilities of £115.7 million. These facilities mature in August 2017. At the year end £20.3 million of the total long term borrowing commitments of £115.7 million remained undrawn.

The main financial covenants in the long term bank facilities restrict net debt to below 2.75 times EBITDA before exceptional items and EBITDA before exceptional items is required to cover net finance charges by 4.0 times.

	Covenant	December 2015
Net debt/underlying EBITDA	< 2.75	1.3 times <sup>†</sup>
Underlying EBITDA/net finance charges	> 4.00	20.0 times

<sup>†</sup> 1.2 times including pro forma adjustment for Aero Starnew.

In addition to the main Group revolving credit and US bilateral facilities, the Group maintains uncommitted facilities for daily working capital fluctuation purposes.

The rationale for preparing the financial statements on a going concern basis is set out on page 48.

#### Mark Hoad

Chief Financial Officer  
9 March 2016

# Navigating our journey

**Neil Carson**  
Chairman

## Introduction

As you will have seen elsewhere in this report, 2015 was a year in which TT Electronics embarked on a journey of refocusing and rebuilding its business with a view to achieving long term sustainable growth. In navigating this journey, the Board remains committed to maintaining the highest standards of corporate governance which we consider to be of paramount importance to the future success of the Group.

In relation to the Group's corporate governance processes, the Board confirms its belief that it was in full compliance with the requirements of the UK Corporate Governance Code (the Code) during 2015. In this regard, last year's Annual Report highlighted our commitment to improving the Group's risk management structure in support of our corporate governance processes. I am pleased to report that following a high level review, we have implemented a new risk management structure across the Group which is designed to be more responsive to the dynamic business environment in which the Group operates. From a wider governance perspective, we have listened to feedback from our institutional shareholders and have introduced a mandatory two year holding period for shares held by Executive Directors under the Company's Long Term Incentive Plan beyond the current three year vesting period.

During 2015 we also restructured the Board schedule of activities to ensure that the Group's key strategic priorities received the requisite level of Board attention. For instance, it was agreed that the activities of the Corporate Governance Committee would be subsumed within the overall responsibilities of the Board in addition, increased time was allocated to specific growth priorities including M&A, the Operational Improvement Plan, supply chain management, R&D and risk management as described elsewhere in this report. The Board also continued to structure meetings so as to allow Non Executives to meet with as wide a range of employees as possible, beyond the Executive Management Board. As part of this process the Board held one of its principal meetings in Salzburg during 2015 where the Non Executives were able to experience the operational dynamics of the AB Mikroelektronik business at first hand.

On Board composition, as we outlined in last year's report Mark Hoad joined the Group as Chief Financial Officer at the beginning of 2015 thus completing the process of restructuring the EMB first initiated by Richard Tyson in 2014. The only other Board level change undertaken during 2015 was my appointment as Chairman of TT Electronics, which took place immediately following the Company's Annual General Meeting in May. As I point out in my Chairman's statement, I am very much indebted to my predecessor, Sean Watson, for the leadership he demonstrated during his seven year tenure with the Board. In particular, I am grateful for the work he initiated prior to my appointment, which has laid a solid foundation of governance for the Group to build upon in the future.

With our current structure the Board is comprised of a strong team of executive and non executive directors drawn from a wide range of international businesses, including the automotive, industrial and aerospace and defence sectors. The Board also has significant experience of working with businesses targeted at delivering growth in highly innovative sectors, involving complex supply chains and diverse customer relationships. It is our belief that this diversity of experience provides an excellent platform for meaningful discussion, constructive challenge and effective decision making at Board level.

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

Of course, one of the key responsibilities of any Board is to continually assess and refresh its composition in order to ensure that an appropriate balance of skills and experience is maintained. With this in mind, we have embarked on a recruitment process which is likely to culminate in the introduction of a new Non-executive Director later in the year.

I have been encouraged by progress made in the past year, particularly in how our improved risk management processes and new strategic initiatives are enhancing the overall governance processes across the Group. I very much look forward to working with the Board, the EMB and our wider group of talented and dedicated employees to continue this process of improvement and to provide investors with more detailed perspectives on the opportunities for the business.

**Neil Carson**  
Chairman

## Governance and Directors' Report / Board of Directors

### 1 Neil Carson – Chairman

Age	Joined TT	Amec Foster Wheeler plc and Paypoint plc and Honorary President of SCI (the Society of Chemical Industry) Formerly Chief Executive of Johnson Matthey plc and a founder member of the Prince of Wales Corporate Leaders Group on Climate Change After completing an engineering degree Neil joined Johnson Matthey in 1980 where he has held a number of senior management positions in both the United Kingdom and the United States
58	May 2015	
Committees Nominations (Chairman), Remuneration		
Experience Currently Senior Independent Director and Chairman of the Remuneration Committee of both		

### 2 Richard Tyson – Chief Executive Officer

Age	Joined TT	2014 and a member of their Executive Committee Previously responsible for TRW Aeronautical Systems (formerly part of Lucas Industries) European aftermarket business before joining Cobham plc in 2003 to run its flight refuelling division
45	2014	
Committees Corporate and Social Responsibility (Chairman) Risk (Chairman)		
Experience President of the Aerospace & Security Division of Cobham plc from 2008 to		

### 3 Mark Hoad – Chief Financial Officer

Age	Joined TT	Prior to joining BBA as Group Financial Controller in May 2005 he spent nine years in a variety of management roles at RMC Group plc with periods in Germany Croatia and Australia
45	January 2015	
Committees Risk		
Experience A Chartered Accountant Mark was Group Finance Director of BBA Aviation plc a FTSE 250 company from 2010 to 2014		

### 4. John Shakeshaft – Senior Independent Non-executive Director

Age	Joined TT	Director and Chairman of the Audit Committee of Kinnevik AB Chairman of Valiance Investment Funds Deputy Chairman of the Council of Cambridge University and a Trustee of the London Symphony Orchestra Formerly a Managing Director at ABN AMRO and Lazard Brothers having held senior positions within Barings Morgan Stanley and Morgan Grenfell Joined the City in 1986 following a number of overseas postings with HM Foreign & Commonwealth Office
61	2007	
Committees Remuneration (Chairman) Audit Nominations, Corporate and Social Responsibility		
Experience Currently chairman of Ludgate Environmental Fund Limited Chairman of The Economy Bank NV Chair of the Investment Committee of Corestone AG		

## 5 Michael Baunton CBE – Independent Non-executive Director

Age	Joined TT	Society of Motor Manufacturers and Traders Industry Forum) and Non Executive Chairman of VTL Group Sertec Group Holdings Limited and ACAL Energy Ltd Awarded a CBE in 2004 for services to the automotive and engineering industries in the UK. Previously held senior executive roles with companies including Caterpillar Inc, Perkins Engines Company Limited and Tenneco Inc.
65	2010	
Committees Audit Nominations Remuneration		
Experience Currently Chairman of the Board of SMMT Industry Forum Limited (the		

## 6 Stephen King – Independent Non-executive Director

Age	Joined TT	Formerly non executive Director and Chairman of the Audit Committee of The Weir Group plc. Group finance director of De La Rue plc from 2003 to 2009 and prior to that finance director of Aquila Networks plc (formerly Midlands Electricity plc) A Chartered Accountant Stephen has also held senior financial positions in Lucas Industries plc and Seaboard plc and was also a non executive director of Camelot plc from 2008 to 2009
55	2011	
Committees Audit (Chairman) Nominations		
Experience Currently Group Finance Director of Caledonia Investments plc and Chairman of the Audit Committee of the Board of Bristow Group Inc.		

## 7 Lynton Boardman – General Counsel & Company Secretary

Age	Joined TT	Formerly Head of Legal (Europe Middle East and Africa) at Syngenta Crop Protection and then General Counsel and Company Secretary of QinetiQ Group plc from 2002 to 2011
49	2012	
Committees Corporate and Social Responsibility Risk		
Experience A qualified solicitor having practiced with Simmons & Simmons MacFarlanes and Burges Salmon LLP		

## UK Corporate Governance Code Compliance Statement

The Company is committed to achieving and maintaining the highest standards of corporate governance. The main and supporting principles of good corporate governance set out in the UK Corporate Governance Code 2014 ("Code") have been complied with throughout the year ended 31 December 2015. Details and explanations of the application of the principles of corporate governance are set out in the following pages of this Governance section.

Details of TT Electronics' Board of Directors are set out on pages 44 and 45 of this report. Pages 46 to 48 provide further information on how leadership at the Board level is discharged. Most importantly, the Board comprises a majority of independent Non-executive Directors with the division of responsibilities between the Chairman and Chief Executive Officer having been clearly articulated. The Board recognises that following nine years of service as a Director, John Shakeshaft would no longer be considered to be independent under the Code, and has taken steps to refresh the Board through the recruitment process described above.

The Board believes that its composition, the structure of its principal committees and the processes it has in place to discharge its primary areas of responsibility meet the requirements of "Leadership and effectiveness under the Code".

## Relations with shareholders

The Chief Executive Officer and Chief Financial Officer meet institutional investors immediately after publication of the annual and interim results and on an ongoing basis as required. In 2015 this included investor roadshows held over a total of 15 days in respect of the annual and interim results. Sean Watson, and latterly, Neil Carson as Chairman and John Shakeshaft, as senior independent non-executive Director and Chairman of the Remuneration Committee, also have undertaken consultation on certain matters with major shareholders from time to time. In 2015 this included engagement on key areas of remuneration policy including the proposal to increase the holding period for shares vesting under the Long Term Incentive Plan to five years for Executive Directors. Through these Directors, the Company maintains a regular dialogue with institutional shareholders and analysts. Feedback is reported to the Board so that all Directors develop an understanding of the views of major shareholders about the Company. Trading updates and press releases are issued as appropriate and the Company's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings. Information offered at the analysts' meetings together with our financial press releases are available on the Group's website. The Annual General Meeting is used by the Directors to communicate with both institutional and private investors.

In addition, in June 2015 the Executive Directors (supported by the EMB) conducted a Capital Markets Day, which expanded upon the key strategic priorities for the Group and the operating Divisions to provide investors with a more detailed perspective on the future opportunities for the business.

## The Board

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

During 2015 the Board comprised two executive Directors and four non-executive Directors at any point in time. All of the Directors served throughout the year with the exception of Sean Watson (who stepped down from his position of Chairman on 12 May 2015) and Neil Carson who succeeded Sean Watson as Chairman and member of the Board on 13 May 2015. John Shakeshaft is the senior independent non-executive Director.

Board and Committee meetings are scheduled in line with the financial calendar of the Company, thereby ensuring that the latest operating data is available for review and sufficient time and focus can be given to matters under consideration. During the year there were seven principal Board meetings on scheduled dates for which full notice was given.

Beyond these principal meetings the Board held two strategy meetings during the year, both of which were fully attended. Additional meetings are held as and when required and during 2015, four such meetings took place (to discuss the appointment of Neil Carson, to agree the content of the trading statement and to discuss the acquisition of Aero Stanrew Group Limited). The Board has held two principal meetings to date during 2016. Full details of each Director's Board and Committee meeting attendance are given on page 48 and in the relevant Committee report.

### Directors

Directors' biographies including the Committees on which they serve and chair are shown on pages 44 and 45. At the time of his appointment as Chairman, Neil Carson was considered to be independent in accordance with the provisions of the Code. All the remaining non-executive Directors are also considered to be independent as defined by the Code.

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

### Directors' interests

The Directors of the Company at 31 December 2015 held interests in the following numbers of the Company's Ordinary shares of 25 pence each on 1 January 2015, 31 December 2015 and 7 March 2016:

	7 March 2016 Ordinary shares	31 December 2015 Ordinary shares	1 January 2015* Ordinary shares
Neil Carson**	100,000	100,000	50,000
Richard Tyson	120,661	120,661	14,880
Mark Hoad	40,000	40,000	40,000
John Shakeshaft	57,142	57,142	57,142
Michael Baunton	81,554	81,554	81,554
Stephen King	100,000	100,000	100,000

\* Or date of appointment, if later.

\*\* Neil Carson was appointed as a Director on 13 May 2015.

The interests of the Directors in the Company's share options and Long Term Incentive Plan are shown in the Directors' remuneration report on pages 66 to 67.

### The Chairman and Chief Executive Officer

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

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

of individual Directors, the Board as a whole and its Committees are evaluated at least once a year.

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

### Board procedures

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

In accordance with the provisions on conflicts of interest in the Companies Act 2006, the Company has put in place procedures for the disclosure and review of any conflicts or potential conflicts of interest which the Directors may have and for the authorisation of such conflicts by the Board. In deciding whether to authorise a conflict or potential conflict, the Directors must have regard to their general duties under the Companies Act 2006.

The authorisation of any conflict and the terms of authorisation, may be reviewed at any time and, in accordance with best practice, a review of Directors' conflicts of interests is conducted annually.

Each member of the Board, including the Senior Independent Director, has the right to include items on the Board agenda or the agenda of the Committees on which they sit.

### Board Committees

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

**Principal Committees**

The principal committees are the Nominations Audit and Remuneration Committees. Details of the Nominations and Audit Committees, including brief descriptions of their terms of reference (full details of which are available for inspection by shareholders at the Annual General Meeting and on the Group's website) and duties together with a summary of significant events which have taken place during the year can be found on pages 50 to 55. Details of the Remuneration Committee and its activities are contained within the Remuneration report on pages 56 to 57.

**Board meeting attendance 2015**

Seven principal Board meetings were held during 2015. Details of attendance are set out below.

Sean Watson	3 of 3
Neil Carson	4 of 4
Richard Tyson	7 of 7
Mark Hoad	7 of 7
Michael Baunton	7 of 7
Stephen King	7 of 7
John Shakeshaft	7 of 7

Additional meetings of the Board and its principal Committees take place as and when required throughout the year. During 2015 there were four such meetings. By necessity these meetings are often convened at shorter notice than would be the case for principal meetings. John Shakeshaft was unable to attend two of these meetings.

Beyond the principal Board meetings, the Board held two meetings during the year which were devoted to strategic initiatives, both of which were fully attended.

Directors' attendance at meetings of the principal Committees on which they serve are detailed in the Nominations, Audit and Remuneration Committee reports on pages 50, 52 and 56.

**Other Committees**

**Corporate and Social Responsibility Committee**  
The Corporate and Social Responsibility Committee is chaired by the Chief Executive Officer and also comprises one independent non executive Director and up to three senior executives from within the Group. The Committee met three times during 2015, with one meeting (postponed from 2015) having been held to date during 2016. The Board regularly receives reports on its activities.

During 2015, the remit of the Committee was amended, such that issues relating to Ethics, Compliance and the Environment are conducted by the Committee, with Health and Safety considerations now falling under the remit of a separate Health and Safety Council, under the Chairmanship of the EVP Operations. Michael Robinson. The Health and Safety Council consists of representatives from all divisions, conducts site based Health and Safety audits and meets regularly to share best practice.

Further information on the activities of the Corporate and Social Responsibility Committee is given in the Resources relationships and responsibilities section on pages 26 to 29.

**Risk Committee**

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

The composition of the Risk Committee is the same as that of the Executive Management Board and meetings are scheduled on a quarterly basis to align with meetings of the EMB. The Committee met four times during 2015. No meetings have been held to date in 2016.

Further information on the Group's risk management activities and framework is given in the Risk management section on pages 22 and 23 and in the Review of internal controls on page 51.

**Corporate Governance Committee**

The Corporate Governance Committee was previously responsible for monitoring the Group's compliance with good corporate governance.

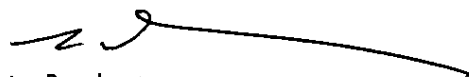
The Committee met once during 2015, during which time it reviewed the reports and AGM voting recommendations from various investor bodies, as well as individual shareholder feedback, and noted suggested areas for improvement, particularly in relation to matters concerning remuneration policy.

With effect from August 2015, the activities of the Committee were transferred to the Board of Directors.

**Going concern**

The Directors have reviewed the budgets for 2016 and the projections for 2017 developed during the 2015 annual strategic planning cycle. The Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities, recognising that the main committed facility was re-negotiated during 2012 for a period of five years to August 2017. Based on this, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 9 March 2016 and signed on its behalf by



**Lynton Boardman**  
Group General Counsel & Company Secretary

## Effectiveness

### Board and Committee performance evaluation

In accordance with the Code the Board conducted an evaluation of its performance and that of its principal Committees during 2015. The potential use of external facilitation of the Board performance evaluation process was considered during the year but was not considered appropriate in light of changes at the Executive Director level at the end of 2014 and the change of Chairman during 2015. External evaluation will remain on the agenda for consideration by the Board during 2016.

The Board performance evaluation programme was led by the Chairman and each Director completed a questionnaire which was used to score and comment on a number of performance criteria. These individual responses were then compiled into a single report by the Group General Counsel & Company Secretary and this was circulated to the Board for discussion and detailed review. It was concluded that significant progress had been made during the year in terms of the evolution of the Group's strategy, the focus of the Board's attention on key priority areas (such as Health and Safety) and the strengthening of the Executive team. The Board also noted the improvements made in the year in terms of Board communication, the quality of the papers submitted to the Board and the ongoing development of the Group's risk management process. It was recognised however that continued focus was required on the following areas in particular:

- risk management in an attempt to maintain the positive progress made in the past year on that front
- Board training and ensuring that Board papers continued to be focused on key areas of strategic priority
- CSR initiatives to ensure that the Group's focus in this area aligned with strategy (including STEM initiatives and the wider concept of employees 'giving something back') and
- increased use of the Annual Report to provide effective investor engagement

It was specifically agreed that the non executive Director induction programme would be reviewed and strengthened during 2016.

### Directors' performance evaluation

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

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

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

# Governance and Directors' Report / Nominations Committee

**Neil Carson**  
Chairman  
Nominations  
Committee

**Membership**  
Neil Carson (Chairman)  
Michael Baunton  
Stephen King  
John Shakeshaft

## Committee meeting attendance 2015

Neil Carson	2 of 2
Sean Watson	1 of 1
Michael Baunton	3 of 3
Stephen King	3 of 3
John Shakeshaft	3 of 3

## Remit

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

## Committee meetings in 2015

During 2015 the Committee held three formal meetings.

The Committee has held one formal meeting to date during 2016.

## 2015 review

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

During 2015, (following a year of integration resulting from changes to the Executive team) the focus of the Committee shifted to the Non Executive elements of the Board.

The Committee is rigorous in seeking talent and is focused on ensuring that the Group has the best possible Board available to promote its interests. During 2015 the Committee engaged external search consultants to assist in the identification and selection of prospective candidates to ensure a robust, measurable and orderly process. This resulted in the appointment of Neil Carson who met with members of the Committee as part of the selection process. Neil had previously been CEO of Johnson Matthey plc for ten years and had already gained experience at a non executive level at Amec Foster Wheeler and Paypoint plc.

In addition, and in light of the fact that 2016 would represent J C Shakeshaft's ninth anniversary as an NED, with the result that (from a Corporate Governance perspective) he would no longer be considered an 'independent' member of the Board, the Committee engaged external search consultants to recruit a new NED as part of the Group's commitment to facilitate a regular refreshing of core skills and diversity of experience.

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

The Board attaches a high degree of importance to diversity at all levels across the Group, although of equal importance is the need to ensure that staff skills and competencies are matched to the strategic and operational needs of the business in its core markets. Details of the number of employees, senior managers and Directors of each gender are given in the Resources, relationships and responsibilities section on page 28.

## Performance evaluation

The Committee carried out an assessment of its performance in 2015 based on a review of its activities during the year against its terms of reference.

It was concluded that the Committee had performed satisfactorily and is structured appropriately to provide effective support to the Board.

**Neil Carson**  
Chairman, Nominations Committee

## Review of internal controls

In accordance with the UK Corporate Governance Code 2014 the Directors have overall responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness at least annually. These systems have been in place for the full financial year. The Group remains committed to a policy of maintaining appropriate internal control over all of its activities. Controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are properly authorised, and that material errors and irregularities are prevented or, if controls are failing, are discovered and mitigated on a timely basis. The systems of control are reviewed regularly and improved where necessary to meet the Group's requirements, as described above. Business risk evaluation takes place at operating company, divisional and Group levels through regular performance reviews and as part of the annual budget preparation process. Having identified risks, operating companies and divisions then monitor, review and update the associated controls to mitigate the risks appropriately.

Further details of the Group's exposure to risk and processes in place to manage the same are set out on pages 22 to 25.

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

## Principal features of the system of internal control

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

The Chief Executive Officer chairs a Committee (Executive Management Board) consisting of the Executive Directors, Divisional Executive Vice Presidents (i.e. heads of divisions) and other senior functional roles (e.g. Operations, Legal, HR and Corporate Development/Strategy). The Executive Management Board meets on a monthly basis and reviews business performance and the outlook for the Group as a whole and agrees and implements any actions as necessary. In addition, it is responsible for monitoring and driving delivery of the Group's key priorities and acts as a forum to raise and debate significant operational issues.

Each operating company within the Group operates within the policies, rules and procedures determined by the Directors and communicated through an internet-based Group Policies hub. The Directors exercise control over operating companies through divisional senior executives who monitor and oversee the activities, financial performance and controls of each operating company and seek to ensure that these companies comply with Group accounting policies in the process for preparation of consolidated financial statements. The directors of

operating companies and heads of business units are held accountable for the effectiveness of the implementation and maintenance of controls within their companies. This provides constant and consistent management.

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

The Group has in place comprehensive control and approval procedures which include appropriate authorisation levels. Capital investment and other major items of expenditure are made only after compliance with appraisal procedures and, if above set levels, only with the approval of the executive Directors and the Board.

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

The Risk and Assurance function reviews the internal control environment according to the annual internal audit plan agreed with the Audit Committee. In 2015, it was agreed that in order to improve the levels of service provided to the business, the Internal Audit function would be outsourced to PwC, thereby allowing the Group to access enhanced levels of resource and expertise that would not be available from an internally resourced model. The reporting line for this directed outsource arrangement is through the Chief Financial Officer. It was expressly agreed that responsibility for determining the priority areas to be covered by the Internal Audit work programme, as well as follow-on mitigation and remediation activities, would remain with the Group (with oversight from the Audit Committee) which would include monitoring the delivery of such services (and reporting back to the Audit Committee) on a periodic basis.

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

The Directors have reviewed the effectiveness of the systems of risk management and internal control during the year to 31 December 2015 and during the period since then to the date of this report. They have made, and will continue to make, improvements where necessary.

# Governance and Directors' Report / Audit Committee

## Stephen King

Chairman,  
Audit Committee

## Membership

Stephen King (Chairman)  
Michael Baunton  
John Shakeshaft

## Committee meeting attendance 2015

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

## Remit

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

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

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

## Committee meetings in 2015

During 2015 the Committee held four scheduled meetings.

The Committee met three times with the Group's Auditors KPMG LLP without executives of the Company being present. During the year the Committee also met once with the head of the internal control function without other executives of the Company being present.

The Committee has held one meeting to date during 2016.

## 2015 review

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

The Group's internal audit activities are conducted under a directed outsourced arrangement which is managed by PwC.

Representatives of PwC also attend meetings to update the Audit Committee on progress on the internal audit plan, findings and recommendations and team and methodology improvements. A formal review of the effectiveness of the internal control function is undertaken as part of the year end process. The Committee also regularly receives updates on the Group's risk management framework to allow members to review principal risks and the effectiveness of risk management processes.

In addition to standing agenda items during 2015 the Committee also reviewed and considered matters including

- internal controls issues and the commencement of programmes to introduce a new Controls Framework
- the outsourcing of the internal audit function
- lead auditor change
- export controls
- conversion to UK GAAP (FRS 101 exemptions)
- the introduction of the new requirement for the viability statement
- a review of group wide tax strategy

One of the key areas of focus for the Committee during 2015 was the decision to outsource the Internal Audit function to PwC, as described on page 51 of this report

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

The Committee has reviewed and challenged the form and content of the Group's Annual Report and accounts and financial statements for 2015. In conducting its review, the Committee considered reports prepared by management and the external Auditors. These reports covered analyses of the judgements and sources of estimation uncertainty involved in applying the accounting policies as described in note 1(h) to the financial statements

The Committee considered and challenged the assumptions relating to goodwill, the carrying value of fixed assets, the level of provisions held on the balance sheet (as detailed below), the Going concern statement on page 48 and the 'Viability statement' on page 23. The Committee also considered and challenged items excluded from underlying profit and whether these were consistent to the accounting policy of the Group

#### Significant issues considered in relation to the financial statements

The main areas of judgement and estimation are set out in the accounting policies on pages 85 to 91

The Committee received and reviewed reports from management and the external Auditors setting out the significant issues in relation to the 2015 financial statements, which related to

- Underlying profit
- Provisions (including taxation and product warranties) and
- Carrying value of goodwill and fixed assets
- Going concern and viability

These issues (which are considered in more detail below) were discussed with management during the year and with the external Auditors at the time the Committee reviewed and agreed the external Auditors' Group audit plan when the external Auditors reviewed the half year results in August 2015 and also at the conclusion of the audit of the financial statements. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust

#### Underlying profit

As further explained in note 7 to the financial statements the Group reports non trading income or expenditure outside of underlying profit when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of its financial position. The Committee challenged the items that were excluded from underlying profit and were satisfied that these were in accordance with the Group's disclosed accounting policy and gave a true and fair view of the Group's underlying financial position

The Auditors explained to the Committee the work they had conducted and the results of their audit procedures on significant items recorded outside underlying profit. On the basis of their audit work the Auditor reported no inconsistencies or misstatements to the Group's disclosed accounting policy that were material in the context of the financial statements as a whole

#### Provisions

##### (i) Taxation

Provisions held in respect of tax risks are included within current and deferred tax liabilities depending on the underlying circumstances of the provision. Management confirmed to the Committee that the provisions recorded at 31 December 2015 represent their best estimate of the potential financial exposure faced by the Group. The Committee reviewed each significant provision and challenged the basis of management's judgement and concurred with the estimates

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

##### (ii) Product warranty, legal and restructuring

As further explained in note 2 to the financial statements, a provision is recognised in the financial statements when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources that can be reliably measured will be required to meet the obligation

Provisions are recognised at an amount equal to management's best estimate of the expenditure required to meet the Group's liability taking into account the time value of money where this is considered material. On legal and contractual exposures the Committee received periodic reports from the Group General Counsel & Company Secretary outlining the open legal and contractual disputes and best estimate of the expected costs associated with such matters

Management has confirmed to the Committee that the provisions recorded at 31 December 2015 represent their best estimate of the potential financial exposure faced by the Group. The Committee reviewed each significant provision and challenged the basis of management's judgement and concurred with management's estimates.

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

Further information about the specific categories of provisions held by the Group is set out in note 18.

### **Carrying value of goodwill and fixed assets**

As more fully explained in notes 12 and 13, the total carrying amount of goodwill is £94.9 million and fixed assets is £89.6 million as at 31 December 2015.

Management has assessed the carrying value of goodwill using detailed calculations of value in use for each significant cash generating unit and fixed assets where impairment indicators existed to ensure that the carrying values are supported by forecast future discounted cash flows. The Committee reviewed and challenged management's assessment of value in use, the basis of key assumptions and sensitivities as outlined in notes 12 and 13 and concurred with management's assessment. The Auditor explained to the Committee the results of their review of the estimate of value in use including their challenge of management's underlying cash flow projections, the key growth assumptions, discount rates and sensitivity analysis. On the basis of their audit work, no additional impairments that were material in the context of the financial statements as a whole were identified by the Auditors.

### **Going concern/Viability statement**

The Committee considered the reports provided by management setting out the basis upon which the Directors provided the going concern and viability statements, including appropriate sensitivity analysis.

### **Misstatements**

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

After reviewing the presentations and reports from management and consulting where necessary with the Auditors, the Audit Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect of the amounts reported and the disclosures).

### **Fair, balanced and understandable**

In accordance with the 2014 UK Corporate Governance Code, the Board requested that the Committee advise them on whether it believed that the Group's Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategic plan. Procedures are in place to facilitate the appropriate and timely review of the drafts of the Annual Report and for input and challenge from all independent non-executive Directors, external auditors and other external advisers. On careful review of the Annual Report for the year ended 31 December 2015 and the basis for the statement made by the Board on 'Fair, balanced and understandable' on pages 74 and 75, the Audit Committee recommended to the Board that, taken as a whole, the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategic plan.

### **Auditors' independence, objectivity and effectiveness**

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

The Committee has formally reviewed the independence of the Auditors as part of the 2015 review. KPMG LLP have provided a letter to the Committee confirming that they remain independent within the meaning of the regulations on this matter and in accordance with their professional standards.

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

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

In accordance with audit regulatory rotational requirements Mike Barradell replaced Tony Sykes as lead audit Partner for KPMG LLP for the year ended 31 December 2015

#### **Policy on non-audit services**

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

In 2015 audit service fees paid to KPMG LLP were £0.9 million whilst non audit service fees paid to KPMG LLP totalled £0.3 million. This comprised non audit service fees relating to the provision of corporate finance services (£0.1 million) and taxation services (£0.2 million), including taxation compliance advice. During 2015 non audit service fees paid to KPMG LLP represented 33 per cent of audit service fees paid to KPMG LLP during the same period (down from 75 per cent in 2014). The decrease was primarily a result of a non recurring, one off pensions project and other advisory services provided by KPMG LLP during 2014. The Committee believes that for these particular areas KPMG LLP were best placed to provide a comprehensive and effective service to the Company.

#### **Performance evaluation**

The Committee carried out an assessment of its performance in 2015 based on a review of its activities during the year against its terms of reference. It was concluded that the Committee had performed effectively and is structured appropriately to provide effective support to the Board. Areas for development which emerged from the performance assessment were identified and appropriate focus will be given to these during the forthcoming year.

**Stephen King**  
Chairman, Audit Committee

# Directors' Remuneration Report

**John Shakeshaft**  
Chairman  
Remuneration  
Committee

**Membership**  
John Shakeshaft (Chairman)  
Michael Baunton  
Neil Carson

#### Committee meeting attendance 2015

John Shakeshaft	8 of 8
Michael Baunton	8 of 8
Neil Carson	3 of 3
Sean Watson	5 of 5

#### Committee meeting attendance 2015

During 2015 the Committee held eight scheduled meetings all of which were fully attended

The Chief Executive Officer and the EVP Human Resources also attend Committee meetings to provide internal support as well as advice on market and regulatory developments in remuneration practice and employee share schemes. They ensure that the Committee is fully informed of general pay policies throughout the Group which are taken into account when determining the remuneration of executive Directors and our most senior executives. No individual is allowed to participate in any matter concerning the details of their own remuneration.

#### Annual statement

##### Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to present the 2015 Remuneration Report.

In accordance with disclosure requirements on director remuneration in the UK, this report contains:

- The Annual statement which summarises and explains the major decisions and changes in respect of Directors remuneration
- The Directors' remuneration policy which sets out the remuneration policy for the Company's Directors which was approved by shareholders at the 2014 AGM and
- The Annual report on remuneration which describes all aspects of remuneration practices covering the Company's Directors in relation to the year ended 31 December 2015

The Directors' remuneration policy was approved by shareholders at the Annual General Meeting held on 9 May 2014 and is subject to a binding shareholder vote every three years or sooner if changes are made to the policy. The Committee believes that the Remuneration Policy continues to incentivise the delivery of strong and sustainable financial results and the creation of shareholder value. While its disclosure is not required this year, for ease of reference the Policy is reproduced in full on pages 58 to 62 and is also available to view at the Corporate Governance section of our website [www.ttelectronics.com](http://www.ttelectronics.com).

Throughout 2015, the Committee has continued to promote our primary strategic objective to create sustainable long term growth in shareholder value. We believe that remuneration arrangements for the executive directors, with a high level of variable pay contingent on the delivery of strong cash flow and sustained earnings growth, continues to support this strategy.

During the course of the year, we sought feedback on a number of issues from our larger investors which was duly considered. The Committee has balanced these particular investor perspectives with our responsibility to ensure that our remuneration levels continue to enable us to attract, motivate and retain a team of the expected quality.

Considering economic and market conditions in 2015, the Group's overall performance in generating profit and cash was positive compared to budgets set at the beginning of the financial year. Despite this performance, earnings per share targets were not met for awards granted in 2013 under the Long Term Incentive Plan, nor are the

associated Total Shareholder Return targets for this period expected to be met

#### Performance evaluation

The Committee assessed its performance, constitution and terms of reference during 2015. The Committee was deemed to have performed satisfactorily.

#### Emphasis in 2015

The Remuneration Committee carefully considers every decision around executive remuneration. Principal areas covered during the year included:

- assessment of annual bonus levels for executive Directors for 2014 payable in 2015
- review of the cash targets for bonus arrangements for 2015
- evaluation of targets for the executive Directors' 2016 annual bonus plan
- review of total remuneration levels for executive Directors and the next level of senior executives
- review of the linkage between risk and reward in relation to remuneration structure
- review of non executive Chairman's fees on recruitment of Chairman
- vesting of 2012 award under the LTIP
- grant of the 2015 award under the LTIP (including a review of performance targets)
- review of the LTIP structure and the current dilution position
- review of the Committee's external advisers
- issuance of performance based awards under our Restricted Share Plan (RSP) to key individuals below executive Directors. Awards were based on TSR and EPS measures
- review of feedback received from shareholders relating to the Remuneration policy and
- decision to implement an additional two year post vesting holding period for future LTIP awards for executive Directors

With the re basing of our targeted profit range in November 2014, 2015 was a year of transition which saw good progress being made with regard to development and launch of a new strategic plan. The Operational Improvement Plan progressed well ahead of schedule with a significantly lower than budgeted cost of implementation. The executive successfully extended the Group's aerospace and defence capability with the acquisition of Aero Stanrew. In challenging markets, revenues for the year ended 31 December 2015 were £509.9 million compared to £524.3 million in 2014. Operating profit before exceptional items was slightly ahead of plan. Cash performance was exceptionally strong during the year, with a cash conversion rate of 136 per cent. The executive have made good progress against the new strategic plan and have managed to successfully stabilise the business, creating a platform for future growth.

The Committee considers that the outturn of our 2015 incentive plans accurately reflects TT's performance in 2015. The annual bonus for the Chief Executive Officer and the Chief Financial Officer was 90.75 per cent of the maximum opportunity.

#### Our remuneration principles

The Remuneration Committee tries to ensure that the remuneration policy and practices drive behaviour aligned to the long term interests of the Company and our shareholders. We offer competitive and equitable rates of pay and benefits to ensure it promotes the attraction, motivation and retention of high quality executives who are key to delivering the Company's strategy and who will be key to delivering sustainable earnings growth and shareholder return.

The Committee's most recent conclusions are that the existing Directors' remuneration policy is appropriate and should continue to operate for 2016 without major changes, albeit a full review of the remuneration policy will be undertaken in the second half of 2016 ahead of the next three-year policy vote in 2017. The Committee concluded that:

- basic salary levels remain appropriately positioned in the market
- the structure and quantum of the annual bonus would remain unchanged in 2016 and
- the policy of annual awards under the long term incentive plan based on earnings per share and relative total shareholder return performance conditions continues to align the senior executive team with shareholders. This alignment is strengthened by the operation of share ownership guidelines coupled with the introduction of a two year post vesting holding period for future awards.

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

#### Assessment of risk

The Remuneration Committee is continually aware and mindful of any potential risk associated with our remuneration programmes. We seek to provide a structure that encourages an acceptable level of risk taking through optimal remuneration mix, key performance metrics, calibration and timing. Annual third party evaluations are undertaken in order to ensure our reward programmes achieve the optimal balance and do not encourage excessive risk taking. The Committee and its advisors have considered the risks involved in the short and long term incentive schemes and are satisfied that the design elements and associated governance procedures mitigate the risks appropriately.

The Remuneration Committee continues to have appropriate dialogue with our shareholders and is mindful of the concerns raised by shareholders in 2015, where specific circumstances led to the remuneration report receiving a 61.81 per cent proxy vote in favour. We sincerely hope to receive your continued support at the AGM on 11 May 2016.



**John Shakeshaft**  
Chairman of the Remuneration Committee  
9 March 2016

# Governance and Directors' Report / Directors' Remuneration Policy

In formulating the remuneration policy, full consideration was given to the principles set out in the UK Corporate Governance Code. The Committee regularly reviews the policy to ensure it takes account of best practice and the particular circumstances of the Company. The Directors' remuneration policy was approved by shareholders at the Annual General Meeting held on 9 May 2014 and is subject to a binding shareholder vote every three years. No changes are currently proposed to the Policy although a full review will be undertaken during 2016, with the revised policy to be put to the 2017 Annual General Meeting for approval.

## Policy overview

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

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

Following a review of the current total remuneration policy for executive Directors and senior managers, the Committee concluded that the following principles remain appropriate for 2016:

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

**Performance related** The majority of the executive Directors' and senior business unit leaders' remuneration packages are determined based on the performance of the Group. A significant proportion of this is aligned with shareholder interests based on earnings growth (EPS) and total shareholder return (TSR). Failure to reach set performance thresholds leads to no pay out under the Group's annual bonus or long term incentive arrangements. In order to provide further alignment with the achievement of strategic objectives and delivery of value to shareholders, executive Directors have agreed

to maintain a minimum holding of the Group's shares equal to 100 per cent of their base salary.

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

## Components of total remuneration

Executive Directors' total remuneration packages comprise:

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

## Consideration of shareholder views

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

## Consideration of employment conditions elsewhere in the Group

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

**Summary remuneration policy**

The table below summarises the Directors' remuneration policy for 2014–2017

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
<b>Salary</b>	<ul style="list-style-type: none"> <li>– Reflects the value of the individual and their role</li> <li>– Reflects skills and experience over time</li> <li>– Provides an appropriate level of basic fixed income</li> <li>– Avoids excessive risk arising from over reliance on variable income</li> </ul>	<ul style="list-style-type: none"> <li>– Reviewed annually effective 1 January</li> <li>– Takes periodic account of practices of companies with similar characteristics and sector comparators</li> </ul>	<ul style="list-style-type: none"> <li>– There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of a role</li> <li>– Current base salary levels are set out on page 63</li> </ul>	<ul style="list-style-type: none"> <li>– Not applicable</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>– To aid retention and recruitment</li> </ul>	<ul style="list-style-type: none"> <li>– Company car allowance, the provision of private medical insurance, life assurance and critical illness cover</li> </ul>	<ul style="list-style-type: none"> <li>– Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>– Not applicable</li> </ul>
<b>Bonus</b>	<ul style="list-style-type: none"> <li>– Incentivises annual delivery of financial and strategic goals</li> <li>– Maximum bonus only payable for achieving demanding targets</li> </ul>	<ul style="list-style-type: none"> <li>– Paid in cash</li> <li>– Not pensionable</li> </ul>	<ul style="list-style-type: none"> <li>– 100 per cent of salary</li> </ul>	<ul style="list-style-type: none"> <li>– A combination of growth in Group profit before tax and other financial metrics (majority weighting), and personal objectives (minority weighting)</li> <li>– Clawback provisions apply</li> </ul>
<b>Long Term Incentive Plan</b>	<ul style="list-style-type: none"> <li>– Aligned to main strategic objectives of delivering sustainable profit growth and shareholder return</li> </ul>	<ul style="list-style-type: none"> <li>– Annual grant of nil cost options or performance shares which normally vest after three years, subject to continued service and performance targets</li> </ul>	<ul style="list-style-type: none"> <li>– 100% of salary (normal limit)</li> <li>– Discretion to provide awards up to 200 per cent of salary in exceptional circumstances such as recruitment or retention</li> <li>– Dividend equivalents may also be payable</li> </ul>	<ul style="list-style-type: none"> <li>– LTIP performance measured over three years based on financial (e.g. EPS) and/or share price measures (e.g. relative TSR)</li> <li>– Clawback provisions apply</li> </ul>
<b>SAYE</b>	<ul style="list-style-type: none"> <li>– To encourage employee share ownership and therefore increase alignment with shareholders</li> </ul>	<ul style="list-style-type: none"> <li>– All employee saving and share purchase plan approved by HMRC</li> <li>– Executives are also eligible to participate in the Group SAYE on the same terms as other employees</li> </ul>	<ul style="list-style-type: none"> <li>– In line with prevailing HMRC limits</li> </ul>	<ul style="list-style-type: none"> <li>– Not applicable</li> </ul>

## Governance and Directors' Report / Directors' Remuneration Policy *continued*

Element of remuneration	Purpose and link to strategy	Operation	Maximum	Performance targets
<b>Share Ownership Guidelines</b>	– To provide alignment between executives and shareholders	– Executive Directors are required to build and maintain a shareholding equivalent to one year's base salary	– Not applicable	– Not applicable
<b>Pension</b>	– Provides modest retirement benefits – Opportunity for executives to contribute to their own retirement plan	– Defined contribution/salary supplement	– Company contributes approximately 15 per cent of salary – Executives salary exchange on same terms as other employees	– Not applicable
<b>Non-executive Director fees</b>	– Reflects time commitments and responsibilities of each role – Reflects fees paid by similarly sized companies	– Cash fee paid – Fees are reviewed on an annual basis	– Fee increases for Non executive Directors will not normally exceed the average salary increase awarded to executive Directors although increases may be above this level if there is an increase in the time commitment and/or responsibility level	– Not applicable Non-executive Directors do not participate in variable pay arrangements

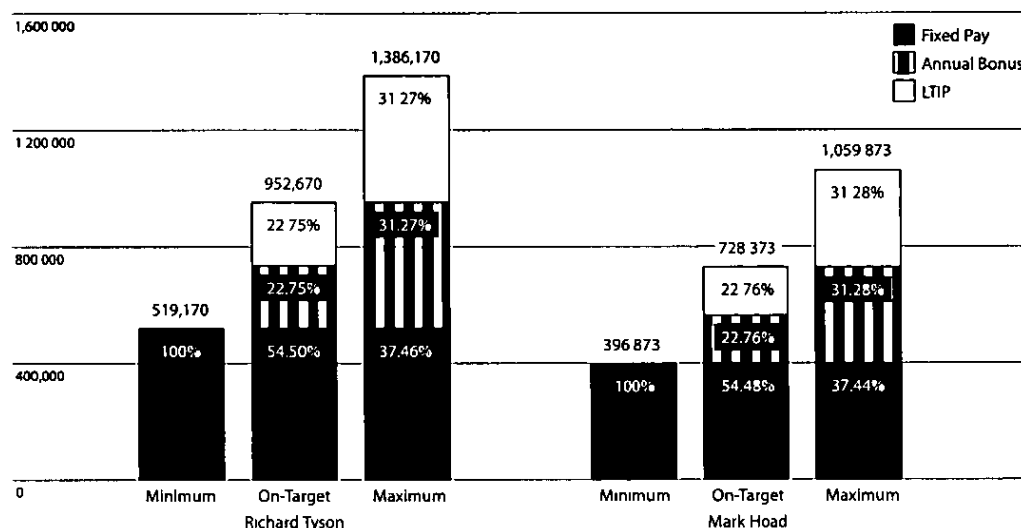
### Notes:

- (1) A description of how the Company intends to implement the policy set out in this table during 2016 is set out in the Annual report on remuneration on page 63
- (2) The following differences exist between the Company's policy for the remuneration of executive Directors as set out above and its approach to the payment of employees generally
  - A lower level of maximum annual bonus opportunity may apply to employees other than the executive Directors and certain senior executives
  - Benefits offered to other employees generally comprise life assurance, pension and other benefits applicable in the global territories in which the Company operates
  - UK employees participate in the same arrangements as the Directors
  - Participation in the LTIP is limited to the executive Directors and certain selected senior managers. Other employees are eligible to participate in the Company's share option schemes, details of which are provided on page 120

In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals and the country in which they are employed. They also reflect the fact that, in the case of the executive Directors and senior executives, a greater emphasis tends to be placed on performance-related pay.
- (3) The choice of the performance metrics applicable to the annual bonus scheme reflect the Committee's belief that any incentive compensation should be appropriately challenging and tied to the delivery of financial metrics and specific individual objectives
- (4) The TSR and EPS performance conditions applicable to the LTIP (further details of which are provided on page 65) were selected by the Remuneration Committee on the basis that they reward the delivery of long-term returns to shareholders and the Group's financial growth and are consistent with the Company's objective of delivering superior levels of long term value to shareholders. The TSR performance condition is monitored on the Committee's behalf by New Bridge Street ("NBS") whilst the Group's EPS growth is derived from the audited financial statements
- (5) The Committee operates the LTIP in accordance with the plan rules and the Listing Rules, and the Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of the plan
- (6) All-employee share plans do not operate performance conditions. Executive Directors are eligible to participate in the Group SAYE on the same terms as other employees
- (7) As highlighted above, the Company has a share ownership policy which requires the executive Directors to build up and maintain a target holding equal to 100 per cent of base salary. Details of the extent to which the executive Directors had complied with this policy as at 31 December 2015 are set out on page 67
- (8) For the avoidance of doubt in approving this Directors' remuneration policy, authority was given to the Company to honour any commitments entered into with current or former Directors (such as the payment of a pension or the vesting/exercise of past share awards) that have been disclosed in previous remuneration reports. Details of any payments to former Directors will be set out in the Annual Report on remuneration as they arise

### Illustrations of application of remuneration policy

The chart below illustrates how the composition of the executive Directors' remuneration packages varies at different levels of performance both as a percentage of total remuneration opportunity and as a total value for the coming year



#### Notes

- (1) The base salary is at 1 January 2016
- (2) The value of benefits receivable under these scenarios is taken to be the value of benefits received in 2015 (as calculated under the Single Total Figure of Remuneration, set out on page 68)
- (3) The on-target level of bonus is taken to be 50 per cent of the maximum bonus opportunity (100 per cent of salary for executive Directors)
- (4) The on target level of vesting under the LTIP is taken to be 50 per cent (being half of the maximum vesting) of the face value of the normal award at grant
- (5) The maximum value of the LTIP is taken to be 100 per cent of the face value of the award at grant i.e. the values above do not incorporate any share price appreciation assumption

#### Approach to recruitment and promotions

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

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

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

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate.

If appropriate on the recruitment of a new executive, the Committee may agree to an initial notice period in excess of 12 months, reducing to 12 months over a specified period.

**Service contracts for executive Directors**

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

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

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

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

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

**Non-executive Directors**

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

## Governance and Directors' Report / Annual Report on Remuneration

### Implementation of the remuneration policy for the year ending 31 December 2016

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2016 is set out below

#### Basic salary and benefits

The Remuneration Committee agreed to increase executive Director base salary levels with effect from 1 January 2016 broadly in line with the general workforce. Current base salary levels and those which applied during the year ended 31 December 2015 are as follows

	2016	2015	% increase
Richard Tyson	£433,500	£425,000	2%
Mark Hoad	£331,500	£325,000	2%

The Group's employees, in general, are receiving pay rises ranging from 0 per cent to 10 per cent depending on location, promotional increases and individual performance.

#### Pension arrangements

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

#### Annual bonus

The maximum bonus potential for the year ending 31 December 2016 will remain at 100 per cent of salary for executive Directors and the split of targets continues to be based on the Group's financial results, being Group Profit Before Tax (up to 50 per cent of maximum), Group operating free cash flow (up to 25 per cent of maximum) and specific personal objectives (up to 25 per cent of maximum) as set at the beginning of the 2016 financial year. Specific targets relating to these objectives are considered commercially sensitive for the 2016 financial year.

#### Long-term incentives

Consistent with past awards, the extent to which LTIP awards which will be granted in 2016 will vest will be dependent on two independent performance conditions: the Company's Total Shareholder Return ("TSR") and the Group's earnings per share ("EPS").

Award levels, the proportions attributable to TSR and EPS, and the TSR and EPS targets for the 2016 award have yet to be determined but will be disclosed in the relevant RNS announcement issued shortly after grant.

#### Non-executive Directors

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

	2016	2015	% increase
Chairman	£175,000	£175,000*	0%
Base fee	£41,922	£41,100	2%
Additional fees			
Audit Committee Chair fee	£7,000	£7,000	0%
Remuneration Committee Chair fee	£7,000	£7,000	0%

\* from appointment in May 2015

**Implementation of the remuneration policy for the year ended 31 December 2015**  
**Remuneration received by Directors (audited)**

Directors' remuneration for the year ended 31 December 2015 was as follows

£ 000		Salary/fees <sup>1</sup>	Benefits <sup>2</sup>	Pension <sup>3</sup>	Bonus <sup>4</sup>	Other <sup>5</sup>	Total	
<b>Executive Directors</b>								
	Richard Tyson	2015	425	21	64	386	255	1 151
		2014	188	7	28	46	132	401
	Mark Hoad	2015	325	16	49	295	–	685
	Chairman Neil Carson	2015	111	–	–	–	–	111
<b>Non-executive Directors</b>								
	Michael Baunton	2015	41					41
		2014	41					41
	Stephen King	2015	48					48
		2014	48					48
	John Shakeshaft	2015	48					48
		2014	48					48
<b>Former Directors</b>								
	Sean Watson	2015	55					55
		2014	152					152

**1 Salary/Fees**

Neil Carson was appointed as Chairman on a fee of £175,000 per annum the amount shown above has been pro-rated from 13 May 2015

**2 Taxable benefits**

The Directors taxable benefits consist of a car allowance and insurance benefits

**3 Pensions**

Employer contributions are paid at 15 per cent of Base Salary, as pension and/or a cash supplement

**4 Annual bonus payments for 2016**

The annual bonus payments presented in the table below were based on performance against Group Profit Before Tax targets (up to 50% of maximum), Group Free Cash Flow targets (up to 25% of maximum), and specific personal objectives (up to 25% of maximum) as measured over the 2015 financial year

Based on the Committee's assessment of achievement for both the financial and personal and strategic objectives, the bonus was calculated as follows

	Potential	Required for threshold bonus (£m)	Required for maximum bonus (£m)	Out turn for incentive plan purposes £m	Actual payout (% of salary)
Group Profit Before Tax	50%	17.1	20.9	20.2	40.75%
Group Free Cash Flow	25%	(31.7)	(27.8)	5.1	25%
Personal and strategic objectives <sup>1</sup>	25%			See <sup>1</sup>	25%
Total % of salary	100%				90.75%

(1) Personal and strategic targets set at the beginning of the year based on strategy development, thought leadership and strong personal leadership. Three common strategic objectives were set for the Chief Executive Officer and the Chief Financial Officer. These were focused around production of a Group level strategy for the next five years for approval by the Board. The Committee assessed performance against personal and strategic targets set at the beginning of the year and believe the award outlined above is appropriate

## 5 Other

Details of the compensation payments awarded to Richard Tyson in respect of previous employment were set out on page 47 of the 2014 Annual Report and accounts. On 27 April 2015 a proportion of the share award granted on 22 August 2014 to Richard Tyson vested. The value of the proportion vesting in 2015 was £255,073 and included dividend equivalents. The number of shares transferred post tax and national insurance was 105,781.

### LTIP performance criteria

In 2015, LTIP allocations were awarded to executive Directors.

### Long-term incentives granted during the year

On 18 March 2015, the following LTIP awards were granted to executive Directors.

Executive	Basis of award granted	Share price at date of grant <sup>1</sup>	Number of shares over which award was granted	Face value of award £	% of face value that would vest at threshold performance	Vesting determined by performance over
Richard Tyson	200% of salary	£1.25	680,000	850,000	16.7%	TSR and EPS
Mark Hoad	150% of salary	£1.25	390,000	487,500	16.7%	Three financial years to 31 December 2017

(1) the share price used to determine the number of shares to be granted was the average share price over the last four trading days prior to grant (i.e. £1.25).

*Awards to executive Directors during 2015 measured performance on the following basis:*

#### EPS

The performance target attached to 50 per cent of the award is based on earnings per share ("EPS") performance targets. 16.7 per cent of the shares subject to this part of the award will vest for EPS for the year ending 31 December 2017 of 10.0 pence, increasing on a straight line basis to 66.7 per cent vesting for EPS for the year ending 31 December 2017 of 11.5 pence, increasing on a straight line basis to 100 per cent vesting for EPS for the year ending 31 December 2017 of 12.4 pence.

#### TSR

The performance target attached to the other 50 per cent of the award is based on total shareholder return performance targets against the FTSE SmallCap (excluding Investment Trusts). 16.7 per cent of the shares subject to this part of the award will vest at median performance, increasing on a straight line basis to 100 per cent vesting at the upper quartile of the comparator group.

Awards will be subject to clawback provisions.

## Governance and Directors' Report / Annual Report on Remuneration continued

### Outstanding share awards

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

As at 31 December 2015, Directors' interests under the LTIP were as follows

	Date of grant	1 January 2015	Granted during the year	Lapsed	Vested	31 December 2015	Market value at 31 December 2015 <sup>1</sup> £	Market price at grant date pence	Vesting date
Richard Tyson	22/08/14	223,214 <sup>2</sup>				223,214	349,330	171	22/08/17
	18/03/15		680,000			680,000	1,064,200	125	18/03/18
						903,214	1,413,530		
Mark Hoad	29/12/14	330,452 <sup>3</sup>				330,452	517,157	101	01/01/18
	18/03/15		390,000			390,000	610,350	125	18/03/18
						720,452	1,127,507		

(1) The market value at 31 December 2015 represents the total number of shares awarded multiplied by 156.5 pence being the share price on 31 December 2015. The calculation does not take into account the likelihood of vesting.

(2) In 2014, as previously disclosed, Richard Tyson received an LTIP allocation. The performance target attached to 50 per cent of the award was based on earnings per share ("EPS"). 25 per cent of the shares subject to this part of the award will vest if the Company's EPS growth for the financial year ended 31 December 2016 is in excess of RPI by 7% per annum, increasing on a straight line basis to 100 per cent vesting if EPS growth in excess of RPI by 12% per annum or more was achieved. The performance target attached to the other 50 per cent of the award is based on total shareholder return (TSR) performance against the FTSE SmallCap (excluding investment trusts). 25 per cent of the shares subject to this part of the award will vest at median performance increasing on a straight line basis to 100 per cent vesting at the upper quartile of the comparator group.

(3) This award will normally vest on 1 January 2018, subject to achievement of a three year performance condition ending 31 December 2017, based on total shareholder return performance targets against the FTSE SmallCap (excluding Investment Trusts). 25 per cent of the Shares subject to this award will vest at median performance increasing on a straight line basis to 100 per cent vesting at the upper quartile of the comparator group.

### TT Electronics plc sharesave scheme

	Date of grant	1 January 2015	Granted during the year	Lapsed	Exercised	31 December 2015	Potential gain at 31 December 2015 <sup>1</sup> £	Option price pence	Exercisable between / exercised on
Richard Tyson	22 Sep 15	-	13,740	-	-	13,740	3,504	131	11/11/18 - 30/04/19
Mark Hoad	22 Sep 15	-	13,740	-	-	13,740	3,504	131	11/11/18 - 30/04/19
			27,480	-	-	27,480	7,008		

(1) The potential gain at 31 December 2015 represents the total number of shares under option multiplied by 156.5 pence being the share price on 31 December 2015 less the option price. The calculation assumes that the executive Director remains employed and completes the contract.

### Payments to past Directors

No payments were made in 2015 to past Directors, other than the continuation of modest benefits which were disclosed last year and were in line with termination provisions.

### Payments for loss of office

Consistent with his contractual provisions a termination payment of £37,968 was made to Sean Watson in respect of his unexpired notice period on his stepping down as Chairman with effect from 12 May 2015.

**Statement of Directors' shareholdings and share interests (audited)**

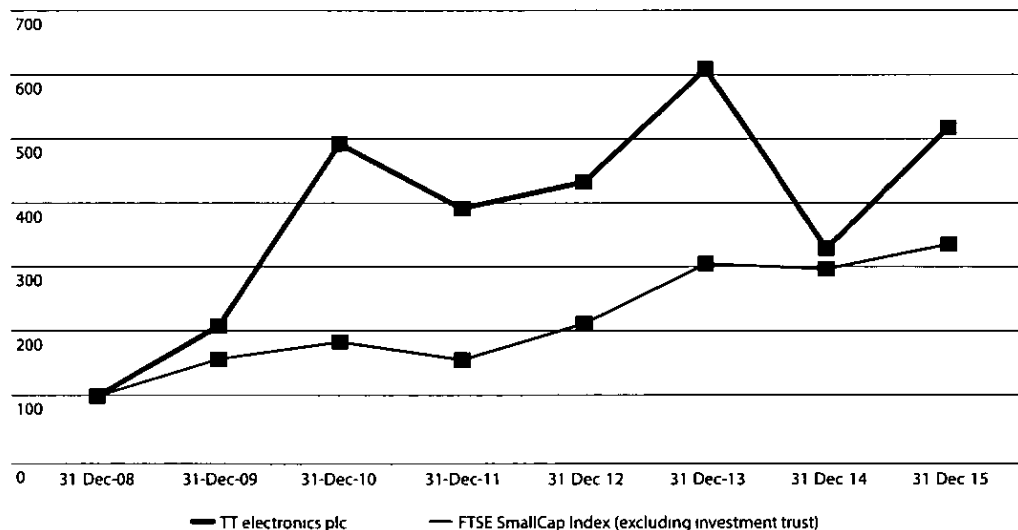
Executive Directors	Beneficially owned at 1 January 2015	Beneficially owned at 31 December 2015	Outstanding LTIP Awards	Outstanding share awards under all employee share plans	Shareholding as a % of salary at 31 December 2015	Value of beneficially owned at 31 December 2015 £	Basic salary at 31 December 2015 £
Richard Tyson	14,880	120,661	903,214	13,740	44.43%	188,834	425,000
Mark Hoad	40,000	40,000	720,452	13,740	19.26%	62,600	325,000
<b>Non-executive Directors</b>							
N A P Carson		100,000	-	-	-		
M J Baunton	81,554	81,554	-	-	-		
S A King	100,000	100,000	-	-	-		
J C Shakeshaft	57,142	57,142	-	-	-		

Executive Directors are required to hold shares in the Company worth 100 per cent of salary and must retain 50 per cent of the net of tax value of any vested LTIP shares until the guideline is met

The closing middle market prices for an Ordinary share of 25 pence of the Company on 31 December 2014 and 2015 as derived from the Stock Exchange Daily Official List were 101.5 pence and 156.5 pence respectively. During 2015 the middle market price of TT Electronics plc Ordinary shares ranged between 103 pence and 163 pence.

**Performance graph and table**

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



Source: Thomson Reuters Datastream

This graph shows the value, by 31 December 2015, of £100 invested in TT Electronics plc on 31 December 2008 compared with the value of £100 invested in the FTSE SmallCap Index (excluding investment trusts). The other points plotted are the values at intervening financial year ends.

**Total remuneration figures for Chief Executive**

The total remuneration figures for the Chief Executive during each of the last seven financial years are shown in the table below. The previous Chief Executive was in this position until 30 June 2014 and was replaced by Richard Tyson from 1 July 2014. The total remuneration figure includes the annual bonus based on that year's performance and LTIP awards based on three year performance periods ending in the relevant year. The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	2009	2010	2011	2012	2013	2014*	2014	2015
Total remuneration (£ 000)	516	771	1,576	1,684	1,154	249	401	<b>1,151</b>
Annual bonus (%)	30	96	96	50	53	0	25	<b>90.75</b>
LTIP vesting (%)	n/a	0	100	94	89.6	39.63	n/a	<b>0</b>

\* Relates to previous Chief Executive who was in position until 30 June 2014

**Percentage change in Chief Executive's remuneration**

The table below shows the percentage change in the Chief Executive's total remuneration (excluding the value of any LTIP and pension benefits receivable in the year) between the financial year ending 31 December 2014 and 31 December 2015 compared to that of the average for all eligible employees of the Group.

	Salary	Benefits	Annual bonus
Chief Executive*	n/a	n/a	n/a
Average of other employees	3.1	3.0	–

\* Joined 1 July 2014. Two year comparison not applicable.

**Relative importance of spend on pay**

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

	2014	2015	% change
Staff costs* (£ m)	149.2	<b>149.8</b>	0.4
Dividends (£ m)	8.7	<b>8.7</b>	0.0

\* Excludes agency staff costs.

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

**External appointments**

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

**Consideration by the Directors of matters relating to Directors' remuneration**

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

John Shakeshaft (Remuneration Committee Chairman)  
 Michael Baunton  
 Neil Carson (replacing Sean Watson from 13 May 2015)

Biographical information on the Committee members is set out on pages 44 and 45.

### External advisors

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

The fees paid to NBS for providing advice in relation to executive remuneration over the financial year under review amounted to £51,079.

### Shareholder voting at AGM

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

At the Annual General Meeting held on 12 May 2015, the resolution pertaining to the Directors' remuneration report was passed on a show of hands. Proxy votes cast in respect of this resolution were as follows:

Number of votes	For	Discretionary	Against	Withheld	Total vote
Remuneration report	69,725,997	119,435	42,341,911	605,884	112,793,227

The Board recognises that the number of votes cast against the resolution to approve the Annual Report on Remuneration for the year ended 31 December 2014 was significant. This was largely as a result of the specific circumstances surrounding the Board changes and the lack of a post-vesting LTIP holding period (which has now been introduced for future awards) for executive Directors. Shareholders will be aware that 2014 was a challenging year for TT Electronics against expectations. To recruit a new executive team and to respect contractual termination agreements, the Remuneration Committee was mindful of the need to take strong and effective decisions, balancing the immediate needs of the Company with longer term shareholder expectations. The Board has spoken with major shareholders and has noted a number of concerns in respect of how the policy was operated and while the current remuneration policy is considered to remain appropriate, a post-vesting holding period has been introduced for future LTIP awards.

## Governance and Directors' Report / Other statutory disclosures

### Directors' report

This Annual Report includes the Directors' report and the audited financial statements for the year ended 31 December 2015. Certain information required to be disclosed in the Directors' report is provided in other sections of this Annual Report. This includes the overview, the operating and financial reviews, the corporate governance and remuneration reports and specific elements of the financial statements noted below and accordingly these are incorporated into the Directors' report by reference.

### Strategic report

Details of the Group's activities and future plans are set out in the Strategic report on pages 1 to 41 of this report. Subsidiary undertakings are listed on pages 129 to 130.

### Results and dividends

The Group's profit on ordinary activities after taxation was £10.4 million (2014: loss of £10.5 million). The audited financial statements of the Group and the Company are set out on pages 76 to 131. Further details of the Group's activities are set out in the Strategic report on pages 1 to 41.

The Directors are recommending a final dividend of 3.8 pence per share for the year ended 31 December 2015 (2014: 3.8 pence) to be paid on 2 June 2016 to shareholders on the register at 20 May 2016 which, together with the interim dividend of 1.7 pence per share paid on 29 October 2015 (2014: 1.7 pence), makes a total for the year of 5.5 pence (2014: 5.5 pence).

### Acquisitions and disposals

On 18 December 2015, the Group acquired Aero Stanrew Group Limited.

### Directors

Rules for the appointment and replacement of Directors are set out in the Company's Articles of Association. Directors are appointed by the Board on the recommendation of the Nominations Committee. Directors may also be appointed or removed by the Company by ordinary resolution at a general meeting of holders of Ordinary shares. The office of a Director shall be vacated if his resignation is requested by all the other Directors, not being fewer than three in number. Further details of the activities of the Nominations Committee are set out on page 50.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs as a result of a takeover bid except that provisions of the Company's share plans may cause options and awards granted under such schemes to vest on takeover, subject to the satisfaction of any performance conditions. Further details of the executive Directors' service contracts can be found in the Directors' remuneration report on page 62. Copies of the executive Directors' service contracts and letters of

appointment of the non-executive Directors are available for inspection by any person at the Company's registered office during normal business hours on any weekday (public holidays excepted) and at the Annual General Meeting from 15 minutes before the start of the AGM until its conclusion.

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

### Auditors

KPMG LLP (previously KPMG Audit Plc) were appointed as Auditors in 2010 following a competitive tender process. KPMG LLP have expressed their willingness to continue in office as Auditors and a resolution will be proposed to re-appoint them at the Annual General Meeting.

The Auditors' responsibilities are set out on page 79 and should be read in conjunction with those of the Directors as set out at the end of this report.

### Annual General Meeting

The Annual General Meeting of the Company will be held on 11 May 2016 at The City Centre (formerly City Marketing Suite), 80 Basinghall Street, London EC2V 5AR at 11.30 am. The Notice of the Company's Annual General Meeting accompanies this document.

### Research and development

The Group carries out research and development in order to develop new products and processes and to substantially improve existing products and processes. Further details are given in note 14 to the Consolidated financial statements.

### Significant agreements relating to change of control

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

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

### Greenhouse gas emissions

For the year ended 31 December 2015, the Group's greenhouse gas emissions (detailed below) were calculated via the Group's management accounting system, verified by third party supplier invoicing, using the

factors for converting energy usage to carbon dioxide equivalent emissions published by DEFRA in June 2015

	Carbon dioxide equivalent (tonnes)	
	2015	2014**
Emissions resulting from operations and combustion of fuel*	3,562	3,406
Emissions resulting from the purchase of electricity heat steam or cooling	39,464	37,736
<b>Total</b>	<b>43,026</b>	<b>41,142</b>

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

#### Intensity ratio

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

For 2015 emissions were 84.38 tonnes of carbon dioxide equivalent per £1 million of revenue (2014: 78.47)

\*\* 2014 figures were calculated using the factors for converting energy usage to carbon dioxide equivalent emissions published by DEFRA in June 2013

#### Employment

The Group is committed to the fair and equal treatment of all its employees regardless of gender race age religion disability or sexual orientation. Where existing employees become disabled the policy of the Group is to provide continuing employment and training wherever practicable.

The Group makes significant efforts to ensure that high standards of employee welfare are maintained worldwide in all its operations irrespective of geography and local market conditions. Together with many other global companies operating in its sector the Group is a member of the Electronic Industry Citizenship Coalition a leading industry organisation promoting best practices in corporate responsibility which is committed to raising standards of employee welfare in all jurisdictions and at all levels of the supply chain for electronic products. Further details on the Group's policies relating to its employees are given on pages 26 to 29.

#### Political contributions

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

#### Share capital

The Company's issued share capital comprises a single class of share capital which is divided into Ordinary shares of 25 pence each. All issued shares are fully paid. The share capital during the year is shown in note 23 to the consolidated financial statements. The rights and obligations attaching to the Company's Ordinary shares are set out in the Company's Articles of Association, a copy of which can be obtained from Companies House in the United Kingdom or by writing to the Group General Counsel & Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

Holders of Ordinary shares are entitled to speak at general meetings of the Company to appoint one or more proxies and, if they are corporations to appoint corporate representatives and to exercise voting rights. Holders of Ordinary shares may also receive a dividend and on a liquidation may share in the assets of the Company. In addition, holders of Ordinary shares are entitled to receive the Company's Annual Report and Accounts. Subject to meeting certain thresholds, holders of Ordinary shares may require a general meeting of the Company to be held or the proposal of resolutions at Annual General Meetings.

#### Authority to allot shares and disapply statutory pre-emption rights

The Directors will be seeking to renew their authorities to allot unissued shares and to disapply statutory pre-emption rights at the Annual General Meeting to be held on 11 May 2016. During 2015 this authority was used primarily in connection with the allotment of shares resulting from the operation of the Group's share schemes. Additionally in December 2015 2,576 million shares were issued as partial consideration for the acquisition of Aero Starnew Group Limited.

#### Purchase of own shares

At the Annual General Meeting held on 12 May 2015 the Company was given authority to purchase up to 15,902,791 of its Ordinary shares until the date of its next AGM. Other than market purchases made by the Employee Benefit Trust, no purchases were made during the year by the Company. The Directors will be seeking a new authority for the Company to purchase its Ordinary shares at the forthcoming Annual General Meeting.

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

**Shares held by the Employee Benefit Trust**

The Company has established an employee benefit trust ( EBT ), the trustee of which is Sanne Trust Company Limited, part of Sanne Group. As at 31 December 2015 the trustee held 25,335 shares with a nominal value of £6,333.75 and an aggregate purchase price of £1.36 per share representing 0.02 per cent of the total issued share capital at that date. These shares will be used to satisfy awards made under the TT electronics plc Restricted Share Plan ( RSP ), the TT electronics plc Long Term Incentive Plan ( LTIP ) or other employee share schemes. The maximum number of shares held by the EBT during the year was 131,116, of which 105,781 shares were used to satisfy a share award for Richard Tyson. Details of this award are shown on page 47 of the 2014 Annual Report and Accounts. The voting rights in relation to these shares are exercisable by the trustee however in accordance with investor protection guidelines the trustee abstains from voting. A dividend waiver is in place under which the trustee waived its right to receive dividends on the shares it held during the year and any future dividends. The executive Directors as employees of the Company are potential beneficiaries of shares held by the EBT.

**Substantial shareholding notifications**

The Company had been notified of the following voting rights attaching to TT Electronics plc shares in accordance with the Disclosure and Transparency Rules at 7 March 2016 and 31 December 2015:

	7 March 2016		31 December 2015	
	Number	%	Number	%
Aberforth Partners LLP	17,645,763	11.0	17,645,763	11.0
Aberdeen Asset Managers Limited	15,557,726	9.7	15,557,726	9.7
FIL Limited (Fidelity International)	15,068,341	9.4	15,068,341	9.4
UBS Global Asset Management	9,301,055	5.8	9,301,055	5.8
Delta Lloyd NV and group companies	8,374,810	5.2	8,374,810	5.2
Tameside MBC re Greater Manchester Police	8,108,219	5.1	8,108,219	5.1
Schroders plc	7,931,600	4.9	7,931,600	4.9
Tweedy Browne Company LLC	7,664,336	4.9	7,664,336	4.9
Norges Bank	-	-	5,610,769	3.5

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

**Voting rights and restrictions on transfer of shares**

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

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

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

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

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

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

**Articles of Association**

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

**UK Corporate Governance Code**

The Code is available to view at the website of the Financial Reporting Council, [www.frc.org.uk](http://www.frc.org.uk)

**Disclosure of information to Auditors**

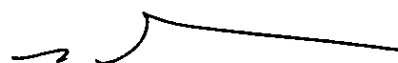
To the best of each Director's knowledge and belief there is no audit information relevant to the preparation of the Auditors' report of which the Auditors are unaware and each Director has taken all the steps which might be expected to be aware of such relevant information and to establish that the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

**Cross reference to information required to be disclosed by Listing Rule 9.8.4R**

For the purposes of Listing Rule 9.8.4R, the table below details where to find applicable information within this Annual Report

Listing Rule	Description	Location
9.8.4(13)	Current and future dividend waiver	Page 72 Shares held by the Employee Benefit Trust

Approved by the Board on 9 March 2016 and signed on its behalf by



**Lynton Boardman**  
Group General Counsel & Company Secretary

# Governance and Directors' Report / Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework

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

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

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

Under applicable law and regulations the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations

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

## **Responsibility statement of the Directors in respect of the Annual Report**

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and
- the Strategic report/Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

We consider the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy

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

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

By order of the Board

**Lynton Boardman**  
 Group General Counsel & Company Secretary  
 9 March 2016

# Financial Statements / Independent auditor's report to the members of TT Electronics plc only

## Opinions and conclusions arising from our audit

### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of TT Electronics plc for the year ended 31 December 2015 set out on pages 80 to 131. In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's profit for the year then ended
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards including FRS 101 Reduced Disclosure Framework and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

### 2 Our assessment of risks of material misstatement

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

The presentation of underlying profit (£21.7 million). Refer to page 53 (Audit committee section of the Directors' Report and Notes 1c and 7 (accounting policy and financial disclosures))

**The risk** The group discloses its earnings in accordance with the requirements of Adopted IFRS. It also presents a measure of underlying earnings as defined in note 7, which excludes a number of separately disclosed items of income and expenditure. In 2015 this mainly related to the continued restructuring of the Group's manufacturing operations (Operational Improvement Plan), acquisition related costs (Aero Starnew Limited) and asset impairments. There is a risk that items disclosed outside underlying profit and are not in line with the accounting policy of the company.

Alternative performance measures can provide readers with appropriate additional information if properly used and presented which can assist them in gaining a better understanding of the group's financial performance and strategy. However, when improperly used and presented these kinds of measures might prevent the Annual Report being fair, balanced and understandable by hiding the real financial position and results or by making the profitability of the reporting entity seem more attractive.

There is also a risk that provisions created through charges outside underlying profit are not utilised in the manner intended and that surplus amounts are not credited back outside underlying profit.

**Our response** Our procedures included comparing a sample of the items excluded to supporting documentation to assess if they have been appropriately excluded from underlying profit based on the company's accounting policy.

We considered whether the policy has been applied consistently between periods by comparing the items excluded in the two years ended 31 December 2015 and on the basis of our understanding of the results gained throughout the audit process.

We also assessed (i) the utilisation of amounts of charged outside underlying profit and the appropriateness of any subsequent reversals of provisions for surplus amounts that were initially charged outside underlying profit. This assessment was performed by reconciling the movements in provisions to underlying accounting records and supporting documentation. (ii) the extent to which the relative prominence given to underlying financial information and related commentary and Adopted IFRS financial information could be misleading and (iii) whether the underlying financial information is not otherwise misleading in the form and context in which it appears.

Product related and restructuring provisions (included within provisions of £12.8 million). Refer to pages 53 to 54 (Audit Committee section of the Directors' Report and Notes 1h, 2u and 18 (accounting policy and financial disclosures)).

**The risk** The group's products are used in a variety of complex applications and if they do not perform in the manner specified the group may be exposed to claims from customers. Assessing if such claims are valid and if so, estimating the likely outflow of economic benefit, which could be material to the financial statements, requires judgment and involves making estimates and assumptions which may prove to have been inaccurate.

The group is continuing to reorganise a number of its operations giving rise to material redundancy and other restructuring charges. The timing of recognition of the associated provisions in accordance with the requirements of the relevant accounting standard also involves judgment.

**Our response** Our audit procedures over the completeness of product related claims included corresponding with the group's external counsel inspecting correspondence with customers and other regulatory bodies, discussions with the group's internal legal counsel and Business Unit management to identify actual and potential customer claims. Our audit procedures over the recognition and measurement of product related provisions included considering relevant available information used by the Directors to assess the validity of claims and challenging the basis of the estimates using our understanding of the status of ongoing claims and disputes gained throughout the audit process.

Our audit procedures over the timing of recognition of redundancy and restructuring provisions included critically assessing whether the restructuring programmes and commitments were sufficiently advanced to trigger the need for a provision in accordance with relevant accounting standards, considering the commitments made via public announcements and other communications with those to be affected and testing the accuracy of provisions through agreeing individual provisions to supporting information.

We also assessed whether the Group's disclosures in respect of these provisions and the movements in the year were appropriate.

Carrying value of goodwill (£94.9 million) and property plant and equipment (£89.6 million)  
Refer to page 54 (Audit Committee section of the Directors' Report and Notes 1h, 2g, 2k, 12 and 13 (accounting policy and financial disclosures))

**The risk** The group has generated significant goodwill on acquisitions and has capitalised property plant and equipment (PPE) whose recoverability is dependent on the ability of the businesses to which it relates to generate sufficient future economic benefits.

There is a risk that a significant reduction in profitability due to competitive forces or a slowdown in customer demand for products using components supplied by the group may result in an impairment or further impairment.

As set out in note 13, the most significant risk of goodwill impairment relates to the carrying value of goodwill associated with Roxspur where the recoverable amount exceeds the book value of £2.1 million by £12.6 million. The most significant risk of PPE impairment relates to a site in the North American resistors business with a carrying value of £2.7 million against which an impairment charge of £1.2 million has been recognised in the current year.

Impairment reviews are based on discounted cash flow projections reflecting a number of assumptions and estimates which require judgment and are inherently uncertain. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, this is one of the key judgemental areas upon which our audit is focused.

**Our response** Our audit procedures included testing the principles of the group's discounted cash flow models for each significant cash generating unit and assessing the sensitivity of the impairment calculations to changes in the key assumptions. We challenged the key assumptions in the impairment calculations driving projected future economic benefits (relating to sales and margins during the projection period, long term growth rates and discount rates).

Our challenge was based on our assessment of the historical accuracy of the group's impairment forecasts, a comparison of the group's assumptions to externally derived macro economic data including expected industry growth, inflation rates and country specific growth rates (where possible) as well as our own assessments. Our own assessments were based on our understanding of the specific trading challenges being faced by the business at risk and its relative performance in the context of the overall market performance.

We also assessed whether the group's disclosures set out in notes 12 and 13 about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

Tax provisioning (included within income tax payable of £7.4 million)

Refer to page 53 (Audit Committee section of the Directors' Report and Notes 1h, 2t and 8 (accounting policy and financial disclosures))

**The risk** Accruals for tax contingencies require the directors to make judgments and estimates in relation to tax issues and exposures given that the group operates in a number of tax jurisdictions, the complexities of transfer pricing and other international tax legislation and the time taken for tax matters to be agreed with the tax authorities, there is a risk that the Directors have not made adequate provisions for tax contingencies.

**Our response** Our audit procedures included the use of our own international and local tax specialists to assess the group's tax positions, to inspect its correspondence with the relevant tax authorities and to analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts.

# Financial Statements / Independent auditor's report to the members of TT Electronics plc only *continued*

We also considered the adequacy of the group's disclosures in respect of tax and uncertain tax positions

to exclude restructuring costs of £2.9 million and asset impairments of £1.7 million as disclosed in note 7

We continue to perform procedures over the capitalisation and recovery of development costs. However, following the impairment charge of £8.4 million recognised in prior year (see note 14) and the significant reduction in the net book value of capitalised development costs, we have not assessed this as one of the risks that had the greatest effect on our audit and therefore it is not separately identified in our report this year.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.05 million for items impacting the income statement and £0.1 million for items in respect of balance sheet misclassifications in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

The materiality for the group financial statements as a whole was set at £1 million, determined with reference to a benchmark of group profit before tax of £18.4 million (of which it represents 5.4% (2014: 5.4%)) normalised.

Of the group's 114 reporting components, we subjected 60 to audits for group reporting purposes and 4 to specified risk focused audit procedures. The latter were not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the following percentages of the group's results:

	Number of components	Group revenue	Group profit before tax	Total assets
Audits for group reporting purposes	60	86%	90%	84%
Specified risk focused audit procedures on significant working capital balances, non-current assets, revenue, cost of sales and administrative expenses	4	1%	4%	8%
<b>Total</b>	<b>64</b>	<b>87%</b>	<b>94%</b>	<b>92%</b>

The remaining 13% of total group revenue, 6% of group profit before tax and 8% of total group assets is represented by 50 reporting components, none of which individually represented more than 7% of any of total group revenue, group profit before tax or total group assets. For these remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The group audit team visited components in the USA, Germany, Austria, Mexico and the UK. Telephone conference meetings were also held with significant component auditors. At these visits and meetings, the findings reported to the group audit team were discussed in more detail, and any further work required by the group audit team was then performed by the component auditor.

The group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The group audit team approved the component materialities, which ranged from £0.01 million to £0.95 million, having regard to the mix of size and risk profile of the group across the components.

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

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

**5 We have nothing to report on the disclosures of principal risks**

Based on the knowledge we acquired during our audit we have nothing material to add or draw attention to in relation to

- the directors' statement of viability on page 23 concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to December 2018 or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting

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

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

In particular, we are required to report to you if

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

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

- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns or

- certain disclosures of directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

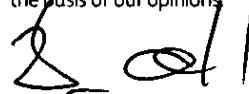
Under the Listing Rules we are required to review

- the directors' statement, set out on pages 48 and 23 in relation to going concern and longer term viability and
- the part of the Corporate Governance Statement on page 42 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities

**Scope and responsibilities**

As explained more fully in the Directors' Responsibilities Statement set out on page 74, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.



**Mike Barradell (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
9 March 2016

# Financial Statements / Consolidated income statement

for the year ended 31 December 2015

€million (unless otherwise stated)	Note	2015	2014
<b>Revenue</b>	3a	<b>509 9</b>	524 3
Cost of sales		(417 5)	(444 3)
<b>Gross profit</b>		<b>92 4</b>	80 0
Distribution costs		(29 0)	(29 7)
Administrative expenses		(48 2)	(56 0)
Other operating income		1 1	1 4
<b>Operating profit/(loss)</b>		<b>16 3</b>	(4 3)
Analysed as			
Underlying operating profit	3a	21 7	29 2
Restructuring	7	(2 9)	(22 2)
Acquisition related costs	7	(0 8)	(1 9)
Asset impairments	7	(1 7)	(9 4)
Finance income	5	1 8	1 1
Finance costs	5	(4 3)	(2 7)
<b>Profit/(loss) before taxation</b>		<b>13 8</b>	(5 9)
Taxation	8	(3 4)	(4 6)
<b>Profit/(loss) for the year attributable to owners of the Company</b>	6	<b>10 4</b>	(10 5)
<b>EPS attributable to owners of the Company (p)</b>			
Basic	10	6 5	(6 6)
Diluted	10	6 5	(6 6)

# Financial Statements / Consolidated statement of comprehensive income

for the year ended 31 December 2015

Emillion	Note	2015	2014
<b>Profit/(loss) for the year</b>		<b>10 4</b>	(10 5)
<b>Other comprehensive Income/(loss) for the year after tax</b>			
<b>Items that are or may be reclassified subsequently to the Income statement</b>			
Exchange differences on translation of foreign operations		2 5	1 9
Loss on hedge of net investment in foreign operations		(1 2)	(0 6)
Loss on cash flow hedges taken to equity less amounts taken to income statement		(0 1)	(1 7)
<b>Items that will never be reclassified to the income statement.</b>			
Remeasurement of defined benefit pension schemes	22	(11 4)	4 6
Remeasurement of other post-employment benefits		0 1	(0 3)
Tax on remeasurement of defined benefit pension schemes	21	1 9	(1 1)
Tax on remeasurement of other post employment benefits	21	-	0 1
<b>Total comprehensive income/(loss) for the year</b>		<b>2 2</b>	(7 6)

Total comprehensive income/(loss) is entirely attributable to the owners of the Company

# Financial Statements / Consolidated balance sheet

at 31 December 2015

£million	Note	2015	2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property plant and equipment	12	89 6	94 0
Goodwill	13	94 9	69 4
Other intangible assets	14	36 6	18 3
Deferred tax assets	21	4 9	5 6
<b>Total non current assets</b>		<b>226 0</b>	<b>187 3</b>
<b>Current assets</b>			
Inventories	15	79 9	78 9
Trade and other receivables	16	72 2	70 7
Income taxes receivable		–	0 9
Derivative financial instruments		0 2	0 4
Cash and cash equivalents		40 9	39 4
<b>Total current assets</b>		<b>193 2</b>	<b>190 3</b>
<b>Total assets</b>		<b>419 2</b>	<b>377 6</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	19	1 8	53 7
Derivative financial instruments		1 3	1 3
Trade and other payables	17	83 7	81 6
Income taxes payable		7 4	10 0
Provisions	18	12 6	18 9
<b>Total current liabilities</b>		<b>106 8</b>	<b>165 5</b>
<b>Non-current liabilities</b>			
Borrowings	19	95 2	–
Deferred tax liability	21	4 3	5 6
Pensions	22	21 1	12 4
Provisions	18	0 2	0 2
Other non-current liabilities	17	4 2	6 1
<b>Total non current liabilities</b>		<b>125 0</b>	<b>24 3</b>
<b>Total liabilities</b>		<b>231 8</b>	<b>189 8</b>
<b>Net assets</b>		<b>187 4</b>	<b>187 8</b>
<b>EQUITY</b>			
Share capital	23	40 5	39 8
Share premium	23	5 2	1 5
Share options reserve		3 6	1 9
Hedging and translation reserve		18 1	16 9
Retained earnings		118 0	125 7
Equity attributable to owners of the Company		185 4	185 8
Non controlling interests		2 0	2 0
<b>Total equity</b>		<b>187 4</b>	<b>187 8</b>

Approved by the Board of Directors on 9 March 2016 and signed on their behalf by


  
 Richard Tyson      Mark Hoad  
 Director              Director

# Financial Statements / Consolidated statement of changes in equity

for the year ended 31 December 2015

£million	Share capital	Share premium	Share based payments reserve	Hedging and translation reserve	Retained earnings	Sub total	Non controlling interest	Total
At 1 January 2014	397	14	12	173	1417	2013	20	2033
<b>Loss for the year</b>	-	-	-	-	(105)	(105)	-	(105)
<b>Other comprehensive income</b>								
Exchange differences on translation of foreign operations	-	-	-	19	-	19	-	19
Net loss on hedge of net investment in foreign operations	-	-	-	(06)	-	(06)	-	(06)
Net loss on cash flow hedges taken to equity less amounts taken to income statement	-	-	-	(17)	-	(17)	-	(17)
Remeasurement of defined benefit pension schemes	-	-	-	-	46	46	-	46
Remeasurement of other post employment benefits	-	-	-	-	(03)	(03)	-	(03)
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	(11)	(11)	-	(11)
Tax on remeasurement of other post-employment benefits	-	-	-	-	01	01	-	01
Total other comprehensive income	-	-	-	(04)	33	29	-	29
<b>Transactions with owners recorded directly in equity</b>								
Equity dividends paid by the Company	-	-	-	-	(87)	(87)	-	(87)
Share based payments	-	-	08	-	-	08	-	08
Deferred tax on share based payments	-	-	(01)	-	-	(01)	-	(01)
New shares issued	01	01	-	-	(01)	01	-	01
<b>At 31 December 2014</b>	<b>398</b>	<b>15</b>	<b>19</b>	<b>169</b>	<b>1257</b>	<b>1858</b>	<b>20</b>	<b>1878</b>
<b>Profit for the year</b>	-	-	-	-	104	104	-	104
<b>Other comprehensive income</b>								
Exchange differences on translation of foreign operations	-	-	-	25	-	25	-	25
Net loss on hedge of net investment in foreign operations	-	-	-	(12)	-	(12)	-	(12)
Net loss on cash flow hedges taken to equity less amounts taken to income statement	-	-	-	(01)	-	(01)	-	(01)
Remeasurement of defined benefit pension schemes	-	-	-	-	(114)	(114)	-	(114)
Remeasurement of other post employment benefits	-	-	-	-	01	01	-	01
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	19	19	-	19
Total other comprehensive income	-	-	-	12	(94)	(82)	-	(82)
<b>Transactions with owners recorded directly in equity</b>								
Equity dividends paid by the Company	-	-	-	-	(87)	(87)	-	(87)
Share based payments	-	-	16	-	-	16	-	16
Deferred tax on share based payments	-	-	01	-	-	01	-	01
New shares issued	07	37	-	-	-	44	-	44
<b>At 31 December 2015</b>	<b>405</b>	<b>52</b>	<b>36</b>	<b>181</b>	<b>1180</b>	<b>1854</b>	<b>20</b>	<b>1874</b>

# Financial Statements / Consolidated cash flow statement

for the year ended 31 December 2015

Emillion	Note	2015	2014
<b>Cash flows from operating activities</b>			
Profit/(loss) for the year		10 4	(10 5)
Taxation		3 4	4 6
Net finance costs		2 5	1 6
Restructuring		2 9	22 2
Acquisition related costs		0 8	1 9
Asset impairments		1 7	9 4
<b>Underlying operating profit</b>		<b>21 7</b>	<b>29 2</b>
Adjustments for			
Depreciation of property plant and equipment	12	15 9	16 5
Amortisation of intangible assets	14	4 4	5 8
Other items		1 0	1 0
Decrease in inventories		2 2	2 6
Decrease in receivables		3 5	5 5
Decrease in payables		(1 1)	(24 9)
<b>Underlying operating cash flow</b>		<b>47 6</b>	<b>35 7</b>
Special payments to pension funds		(4 3)	(4 1)
Restructuring and acquisition related costs		(10 1)	(13 0)
<b>Net cash generated from operations</b>		<b>33 2</b>	<b>18 6</b>
Net income taxes paid		(7 9)	(5 4)
<b>Net cash flow from operating activities</b>		<b>25 3</b>	<b>13 2</b>
<b>Cash flows from investing activities</b>			
Interest received		0 1	0 1
Purchase of property, plant and equipment	12	(15 1)	(24 9)
Proceeds from sale of property, plant and equipment and grants received		0 8	1 2
Development expenditure	14	(1 3)	(6 8)
Purchase of other intangibles	14	(2 5)	(4 3)
Acquisitions of businesses	4	(39 8)	(8 4)
Cash with acquired businesses	4	1 6	0 4
Deferred consideration paid		–	(0 5)
<b>Net cash flow used in investing activities</b>		<b>(56 2)</b>	<b>(43 2)</b>
<b>Cash flows from financing activities</b>			
Issue of share capital	23	0 5	0 1
Interest paid		(2 2)	(1 0)
Repayment of borrowings		(2 9)	–
Proceeds from borrowings		44 6	24 9
Other items	24	–	(0 5)
Finance leases		(0 1)	(0 1)
Dividends paid by the Company		(8 7)	(8 7)
<b>Net cash flow from financing activities</b>		<b>31 2</b>	<b>14 7</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>0 3</b>	<b>(15 3)</b>
Cash and cash equivalents at beginning of year	25	39 4	54 5
Exchange differences	25	0 6	0 2
<b>Cash and cash equivalents at end of year</b>	25	<b>40 3</b>	<b>39 4</b>
<b>Cash and cash equivalents comprise</b>			
Cash at bank and in hand		40 9	39 4
Bank overdrafts	19	(0 6)	–
		<b>40 3</b>	<b>39 4</b>

# Financial Statements / Notes to the consolidated financial statements

## 1 Basis of preparation

### a) Basis of accounting

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

The financial statements set out on pages 80 to 122 have been prepared using consistent accounting policies.

Adoption of new and amendments to published standards and interpretations effective for the Group for the year ended 31 December 2015 did not have any impact on the financial position or performance of the Group.

### b) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2015 and the Group's financial performance for the year ended 31 December 2015.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

### c) Underlying measures

To assist with the understanding of underlying performance, the Group has included within its published financial statements non GAAP measures including underlying operating profit and underlying earnings per share. These are considered by the Board to be the most meaningful measures under which to assess the true operating performance of the Group.

### d) Underlying profit

This has been defined as operating profit from continuing operations excluding the impacts of business acquisition and divestment related activity, restructuring costs, impairments of intangible assets and other items deemed by the Directors to be of a non recurring nature. Business acquisition and divestment related items excluded from underlying profit and underlying earnings per share include the amortisation of intangible assets recognised on acquisition, the writing off of the pre acquisition profit element of inventory written up on acquisition, other direct costs associated with business combinations and adjustments to contingent consideration related to acquired businesses.

### e) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out within the Strategic Report on pages 1 to 41. The Strategic Report analyses the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, note 20 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Group had a net debt balance of £56.1 million at 31 December 2015 (2014: £14.3 million) with available undrawn committed and uncommitted facilities of £69.0 million. Given the considerable financial resources available, together with long term partnerships with a number of key customers and suppliers across different geographic areas and industries, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources and financial headroom to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further details are contained in the Directors' report on page 48.

### f) New standards and interpretations not yet adopted

The Group is in the process of assessing the impact of IAS12 Income Taxes which will be effective for periods beginning 1 January 2017, IFRS 15 Revenue from Contracts With Customers and the revised issuance of IFRS 9 Financial Instruments which will be effective for periods beginning 1 January 2018 and IFRS 16 Leases which will be effective for periods beginning 1 January 2019.

A number of other new standards, amendments and interpretations are effective for periods beginning 1 January 2016 and have not yet been applied in preparing these Financials Statements. None of these are expected to have a significant effect on the Financial Statements of the Group.

## **1 Basis of preparation (continued)**

### **g) Change in accounting policies**

There have been no changes to accounting policies during the year. Adoption of new and amendments to published standards and interpretations effective for the Group for the year ended 31 December 2015 did not have any impact on the financial position or performance of the Group.

### **h) Significant accounting judgements and estimates**

#### **Judgements**

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

#### **Estimation uncertainty**

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

- Note 8 – Taxation. Accruals for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in current liabilities.
- Note 12 – Property, Plant and Equipment. Where indicators of impairment exist the carrying amount of property, plant and equipment has been tested by comparing the value in use to the net book value of the asset.
- Note 13 – Impairment of goodwill. The carrying amount of goodwill has been tested for impairment by estimating the value in use of the cash generating units to which it has been allocated. Note 13 outlines the significant assumptions made in performing the impairment tests.
- Note 14 – Other intangible assets. The recoverability of capitalised development costs is dependent on assessments of the future commercial viability of the relevant products and processes.
- Note 18 – Provisions. The Group makes appropriate provision on a consistent basis for risks of product liability, litigation, restructuring, credit risk and other normal trading exposures with estimates being made regarding the timing of future payments.
- Note 21 – Deferred tax. The recognition of deferred tax assets is dependent on assessments of future taxable income in the relevant countries concerned, and
- Note 22 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions including future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate.

## 2 Summary of significant accounting policies

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

### a) Revenue

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

### b) Finance income

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

### c) Finance costs

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

### d) Discontinued operations

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

### e) Dividends

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

### f) Business combinations

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

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

### g) Property, plant and equipment

#### Initial measurement

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

#### Depreciation

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

The depreciation rates of assets are as follows:

Freehold buildings	50 years
Leasehold buildings	50 years (or over the period of the lease, if shorter)
Plant and equipment	3 to 10 years

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

**2 Summary of significant accounting policies (continued)**

**h) Investment property**

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

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

**i) Leases**

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

**j) Government grants**

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

**k) Goodwill**

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

Negative goodwill arising on the acquisition of a business is credited to the Consolidated income statement on acquisition as part of acquisition costs reported outside underlying profit.

**l) Other intangible assets**

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

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

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

The amortisation rates for intangible assets are:

Acquired patents and licences	up to 10 years
Product development costs	5 years
Customer relationships	3 to 15 years
Order backlog	up to 2 years
Software	3 to 5 years

Amortisation is charged on a straight line basis.

## 2 Summary of significant accounting policies (continued)

### m) Deferred taxation

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

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

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

### n) Inventories

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

### o) Trade and other receivables

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

### p) Financial instruments

#### Recognition

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

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

#### Measurement

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

In determining estimated fair value, investments are valued at quoted bid prices on the trade date.

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

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

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

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

## **2 Summary of significant accounting policies (continued)**

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

### **Derecognition**

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

### **Impairment of financial assets**

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

### **q) Cash and cash equivalents**

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

### **r) Borrowings**

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

### **s) Trade payables**

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

### **t) Income tax**

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

### **u) Provisions**

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

### **v) Employee benefits**

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

#### **Defined benefit plans**

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

#### **Defined contribution plans**

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

## 2 Summary of significant accounting policies (continued)

### Termination benefits

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

### Short term employee benefits

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

### Share-based payments

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

### w) Own shares

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

### x) Foreign currency translation

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

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

**3 Segmental reporting**

As part of the organisational change announced in November 2014 the Group is now organised into four divisions, as shown below according to the nature of the products and services provided. Each of these divisions represent an operating segment in accordance with IFRS 8 'Operating segments' and there is no aggregation of segments. The chief operating decision maker is the Board of Directors. The operating segments are:

- Transportation Sensing and Control – The Transportation Sensing and Control division develops both sensors and control solutions for automotive OEMs and tier one suppliers including powertrain providers for passenger cars and trucks. The division develops a wide range of sensors for multiple applications on a vehicle, from gear position and pedal sensors to fluid and emission sensors and with almost all of them focused on safety and driver assistance features required by our customers.
- Industrial Sensing and Control – The Industrial Sensing and Control division addresses challenging sensing requirements in terms of precision, speed of response, reliability or physical environment in developing position, pressure, temperature, flow and fluid quality sensors which are used for critical applications in a range of end markets including industrial automation, industrial process control, medical and aerospace sectors.
- Advanced Components – The Advanced Components division creates specialist, high performance, ultra reliable, highly engineered electronic components for circuit protection, power management, signal conditioning and connectivity applications in harsh environments. The division serves customers in the industrial, automotive, aerospace, defence and medical markets and focus on creating value by developing innovative electronic solutions that solve especially challenging problems for our customers electronic circuits or systems and
- Integrated Manufacturing Services – The IMS division draws on its manufacturing design engineering capabilities, global facilities and world class quality standards to provide highly complex electronic manufacturing solutions to customers in the aerospace and defence, medical and high technology industrial sectors. The division has broad capabilities ranging from printed circuit board assembly to environmental test and full systems integration. This global suite of end to end solutions is focused exclusively on low volume, high mix business.

The accounting policies of the reportable segments are the same as the Group's accounting policies as shown in note 2.

The key performance measure of the operating segments is underlying operating profit. The Group reports non trading income or expenditure outside underlying profit when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of its financial position, see accounting policy in note 1d). Segment operating profit represents the profit earned by each segment after allocation of central head office administration costs and is reviewed by the chief operating decision maker.

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

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

a) Income statement information – continuing operations

					2015
€million	Transportation Sensing and Control	Industrial Sensing and Control	Advanced Components	Integrated Manufacturing Services	Total
<b>Sales to external customers</b>	205.8	61.0	95.3	147.8	509.9
<b>Segment underlying operating profit</b>	(1.4)	11.4	6.0	5.7	21.7
Adjustments to underlying operating profit (note 7)					(5.4)
<b>Operating profit</b>					16.3
Net finance costs					(2.5)
<b>Profit before taxation</b>					13.8

## 3 Segmental reporting (continued)

2014

£million	Transportation Sensing and Control (represented <sup>1</sup> )	Industrial Sensing and Control (represented <sup>1</sup> )	Advanced Components	Integrated Manufacturing Services	Total
Sales to external customers	230.5	58.8	98.8	136.2	524.3
Segment underlying operating profit	1.4	12.8	9.5	5.5	29.2
Adjustments to underlying operating profit (note 7)					(33.5)
Operating loss					(4.3)
Net finance costs					(1.6)
Loss before taxation					(5.9)

1 In 2014 the results of Transportation and Industrial Sensing and Control were disclosed as a single segment within a combined Sensing and Control division

There are no significant sales between segments

## b) Segment assets and liabilities

£million	Assets		Liabilities	
	2015	2014	2015	2014
Transportation Sensing and Control	102.5	113.5	38.9	45.6
Industrial Sensing and Control	82.9	81.2	11.7	15.3
Advanced Components	104.5	57.2	18.9	16.3
Integrated Manufacturing Services	83.3	79.4	31.2	29.6
<b>Segment assets and liabilities</b>	<b>373.2</b>	<b>331.3</b>	<b>100.7</b>	<b>106.8</b>
Pensions and other post employment benefits	–	–	21.1	12.4
Unallocated assets and liabilities	46.0	46.3	110.0	70.6
<b>Total assets/liabilities</b>	<b>419.2</b>	<b>377.6</b>	<b>231.8</b>	<b>189.8</b>

£million	Capital expenditure		Depreciation and amortisation	
	2015	2014	2015	2014
Transportation Sensing and Control	7.5	21.4	11.4	14.9
Industrial Sensing and Control	2.6	2.3	1.5	1.7
Advanced Components	6.0	7.8	4.9	3.7
Integrated Manufacturing Services	2.8	4.5	2.5	2.0
<b>Total</b>	<b>18.9</b>	<b>36.0</b>	<b>20.3</b>	<b>22.3</b>

Unallocated assets of £46.0 million (2014 £46.3 million) include deferred tax of £4.9 million (2014 £5.6 million) cash of £40.9 million (2014 £39.4 million) derivative financial instruments of £0.2 million (2014 £0.4 million) and income tax of nil (2014 £0.9 million)

Unallocated liabilities of £110.0 million (2014 £70.6 million) include borrowings of £97.0 million (2014 £53.7 million), derivative financial instruments of £1.3 million (2014 £1.3 million), deferred tax of £4.3 million (2014 £5.6 million) and income tax of £7.4 million (2014 £10.0 million)

**3 Segmental reporting (continued)**

c) Geographic information

Revenue by destination

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

£million	2015	2014
United Kingdom	82.6	86.4
Rest of Europe	234.5	256.0
North America	101.9	101.0
Central and South America	2.4	3.4
Asia	84.6	74.5
Rest of the World	3.9	3.0
<b>Total revenue</b>	<b>509.9</b>	<b>524.3</b>

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

Non current assets

The carrying amount of non current assets, excluding deferred tax assets and financial assets, analysed by the geographical area is shown below.

£million	2015	2014
United Kingdom	80.2	37.1
Rest of Europe	42.0	49.0
North America	80.2	77.2
Central and South America	4.9	4.6
Asia	13.8	13.8
	<b>221.1</b>	<b>181.7</b>

#### 4 Acquisitions

On 18 December 2015 the Group acquired Aero Stanrew Group Limited

The consideration was paid through a combination of £39.8 million in cash and the issue of 2,575,669 shares (with a fair value of £4.0 million) to key members of the management team

£million	2015		
	Book value at date of acquisition	Fair value adjustments (provisional)	Fair value at date of acquisition (provisional)
<b>Non-current assets</b>			
Property, plant and equipment	1.2	–	1.2
Identifiable intangible assets	0.1	18.8	18.9
<b>Current assets / (liabilities)</b>			
Inventory	2.5	0.4	2.9
Trade and other receivables	4.2	–	4.2
Cash	1.6	–	1.6
Trade and other payables	(3.2)	–	(3.2)
Income tax payable	(0.7)	–	(0.7)
<b>Non-current liabilities</b>			
Deferred tax	(0.1)	(3.4)	(3.5)
	5.6	15.8	21.4
<b>Consideration paid/payable</b>			
Cash			39.8
Fair value of shares			4.0
<b>Goodwill</b>			22.4

As consideration exceeds the value of net assets acquired, goodwill of £22.4 million has been recognised on the balance sheet. The goodwill represents the Group's view of the future earnings growth potential of Aero Stanrew and the technical know-how in the business.

£18.8 million of intangible assets have been recognised representing the fair value of the customer relationships (£16.6 million) and order backlog (£2.2 million) acquired. The useful economic life of the customer relationships is 15 years and that of the order backlog is 1.4 years. A deferred tax liability of £3.4 million has been recognised on the fair value adjustment to the assets and liabilities acquired.

On 14 July 2014 the Group announced the acquisition of Roxspur Measurement & Control Limited. Initial net consideration of £8.4 million was paid in cash with subsequent adjustments due to the determination of net asset values acquired bringing consideration to £8.3 million. As a result of the impact of the broader slowdown in the oil and gas sector a further £2.5 million contingent consideration will not now become payable. £0.8 million contingent consideration accrued to date was released through non-underlying profit during the year. As consideration payable exceeded the £6.2 million net assets acquired (including identifiable intangible assets of £4.5 million) goodwill of £2.1 million was recognised on the balance sheet. The measurements period closed on 14 July 2015 with no further adjustments to provisional fair values.

## Financial Statements / Notes to the consolidated financial statements *continued*

### 5 Finance income and finance costs

£million	2015	2014
Interest expense	(2 2)	(1 0)
Foreign exchange losses	(1 5)	(0 7)
Net interest on employee obligations	(0 4)	(0 8)
Amortisation of arrangement fees	(0 2)	(0 2)
<b>Finance costs</b>	<b>(4 3)</b>	<b>(2 7)</b>
Interest income	0 1	0 1
Foreign exchange gains	1 7	1 0
<b>Finance income</b>	<b>1 8</b>	<b>1 1</b>
<b>Net finance costs</b>	<b>(2 5)</b>	<b>(1 6)</b>

### 6 Profit for the year

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

£million	2015	2014
Depreciation of property, plant and equipment	15 9	16 5
Amortisation of intangible assets <sup>1</sup>	5 2	6 5
Net foreign exchange (losses)/gains	(0 3)	0 1
Cost of inventories recognised as an expense	417 5	444 3
Research and development	20 4	18 8
Staff costs (see note 11)	149 8	149 2
Restructuring (excluded from underlying operating profit)	2 9	22 2
Contingent consideration (excluded from underlying operating profit)	(0 8)	0 8
M&A costs (excluded from underlying operating profit)	0 8	0 4
Impairment of property, plant and equipment and intangibles <sup>2</sup>	1 9	9 6
Remuneration of Group Auditors		
– audit of these financial statements	0 3	0 3
– audit of financial statements of subsidiaries of the Company	0 6	0 5
– taxation compliance services	0 2	0 2
– other tax advisory services	–	0 1
– other advisory services	0 1	0 3
Government grants credited	(0 4)	(0 3)
Share based payments <sup>3</sup>	1 7	1 3
Profit on disposal of property plant and equipment	0 1	0 2

1 Included within amortisation of intangible assets is £0.8 million (2014: £0.7 million) reported within items excluded from underlying operating profit

2 Included within impairment of property plant and equipment is £0.2 million (2014: £0.2 million) charged to underlying operating profit.

3 Included within share based payments is £0.2 million (2014: £0.1 million) reported within items excluded from underlying operating profit.

## 7 Underlying measures

To assist with the understanding of earnings trends, the Group has included within its published financial statements non GAAP measures including underlying profit and underlying earnings

These are considered by the Board to be the most meaningful measures under which to assess the true operating performance of the Group

### Underlying operating profit

This has been defined as operating profit from continuing operations excluding restructuring costs, asset impairments and acquisition related costs as detailed below

£million	2015	2014
<b>Restructuring</b>		
Operational Improvement Plan	(1 8)	(15 0)
Other restructuring	(0 7)	(4 8)
Charges associated with management changes	(0 4)	(2 4)
	<b>(2 9)</b>	<b>(22 2)</b>
<b>Asset Impairments</b>		
Impairment charges associated with capitalised development costs	-	(8 4)
Other impairments	(1 7)	(1 0)
	<b>(1 7)</b>	<b>(9 4)</b>
<b>Acquisition related costs</b>		
Contingent consideration	0 8	(0 8)
Amortisation of intangible assets arising on business combinations	(0 8)	(0 7)
M&A costs (including aborted deals)	(0 8)	(0 4)
	<b>(0 8)</b>	<b>(1 9)</b>
<b>Total</b>	<b>(5 4)</b>	<b>(33 5)</b>

Restructuring costs £2 9 million (2014 £22 2 million)

In the year ended 31 December 2015 total restructuring costs of £2 9 million were incurred of which £1 8 million related to the Operational Improvement Plan £0 7 million related to other restructuring costs and £0 4m related to the change of management structure

In the year ended 31 December 2014 total restructuring costs of £22 2 million were incurred including £15 million relating to the Operational Improvement Plan and £7 2 million relating to other restructuring costs including UK site consolidation costs related to the IMS Romania facility and change of management structure

Asset Impairments £1 7 million (2014 £9 4 million)

In the year ended 31 December 2015 asset impairment costs of £1 7 million were incurred relating mainly to the North American resistors business reflecting the downturn in activity experienced in the second half of the year

In the year ended 31 December 2014 £9 4 million of costs were incurred for the impairment of assets relating mainly to capitalised development expenditure

Acquisition costs £0 8 million (2014 £1 9 million)

In the year ended 31 December 2015 acquisition costs amounted to £0 8 million which related to £0 8 million of acquisition related costs £0 8 million of amortisation of acquired intangible assets and a £0 8 million credit relating to the reversal of an accrual for deferred acquisition consideration

In the year ended 31 December 2014 £1 9 million of acquisition related costs were incurred, including deferred acquisition consideration of £0 8 million, £0 7 million relating to amortisation of acquired intangible assets and M&A costs of £0 4 million

## Financial Statements / Notes to the consolidated financial statements *continued*

### 8 Taxation

#### a) Analysis of the tax charge for the year

£million	2015	2014
<b>Current tax</b>		
Current income tax charge	7.1	5.7
Adjustments in respect of current income tax of previous year	(1.5)	(1.7)
<b>Total current tax charge</b>	<b>5.6</b>	<b>4.0</b>
<b>Deferred tax</b>		
Relating to origination and reversal of temporary differences	(2.2)	0.6
<b>Total tax charge in the income statement</b>	<b>3.4</b>	<b>4.6</b>

UK tax is calculated at 20.25% (2014 21.5%) of taxable profits. Overseas tax is calculated at the tax rates prevailing in the relevant countries. The Group's effective tax rate for the year from continuing operations was 24.5% (27.0% underlying).

Included within the total tax charge above is a £1.8 million credit relating to items reported outside underlying profit (2014 £2.5 million).

#### b) Reconciliation of the total tax charge for the year

£million	2015	2014
Profit/(loss) before tax	13.8	(5.9)
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 20.25% (2014 21.5%)	2.8	(1.3)
Effects of		
Overseas tax rate differences	0.7	(0.3)
Items not deductible for tax purposes or income not taxable	0.4	6.6
Adjustment to current tax in respect of prior periods	(1.5)	(1.7)
Impact on deferred tax arising from changes in tax rates	0.1	(0.1)
Recognition and utilisation of tax losses and other items not previously recognised	(0.1)	(0.3)
Current year tax losses and other items not recognised	2.0	2.1
Adjustment to value of deferred tax assets	(1.0)	(0.4)
<b>Total tax charge reported in the income statement</b>	<b>3.4</b>	<b>4.6</b>

The enacted UK corporation tax rate applicable from 1 April 2015 is 20%, from 1 April 2017 is 19% and from 1 April 2020 is 18%.

### 9 Dividends

	2015 pence per share	2015 £million	2014 pence per share	2014 £million
Final dividend for prior year	3.8	6.0	3.8	6.0
Interim dividend for current year	1.7	2.7	1.7	2.7
	<b>5.5</b>	<b>8.7</b>	<b>5.5</b>	<b>8.7</b>

The Directors recommend a final dividend of 3.8 pence which when combined with the interim dividend of 1.7 pence gives a total dividend for the year of 5.5 pence per share. The Group has a progressive dividend policy. The final dividend will be paid on 2 June 2016 to shareholders on the register on 20 May 2016.

## 10 Earnings per share

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

Underlying earnings per share is based on the underlying profit after tax.

Pence	2015	2014
Basic earnings/(loss) per share	6.5	(6.6)
Diluted earnings/(loss) per share	6.5	(6.6)

The numbers used in calculating underlying basic and diluted earnings per share are shown below

Underlying earnings per share

£million	2015	2014
Profit/(loss) for the period attributable to owners of the Company	10.4	(10.5)
Restructuring	2.9	22.2
Asset impairments	1.7	9.4
Acquisition related costs	0.8	1.9
Tax effect of above items (see note 8a)	(1.8)	(2.5)
Underlying earnings	14.0	20.5
Underlying earnings per share (pence)	8.8	12.9

The weighted average number of shares in issue is as follows

Million	2015	2014
Basic	159.2	158.3
Adjustment for share awards	0.1	0.5
Diluted	159.3	158.8

# Financial Statements / Notes to the consolidated financial statements *continued*

## 11 Employee information

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

Number	2015	2014
<b>By function</b>		
Production	5,031	5 380
Sales and distribution	308	333
Administration	340	379
	<b>5,679</b>	<b>6 092</b>
<b>By division</b>		
Transportation Sensing and Control	1,800	1 783
Industrial Sensing and Control	980	1 044
Advanced Components	1,434	1 596
Integrated Manufacturing Services	1,465	1 669
<b>Total</b>	<b>5,679</b>	<b>6 092</b>

The aggregate emoluments including those of Directors for the year were

£million	2015	2014 (restated <sup>1</sup> )
Wages and salaries	117 5	115 9
Social security charges	27 4	28 9
Employers' pension costs	2 4	2 4
Defined benefit pension cost	0 8	0 7
Share based payments expense	1 7	1 3
	<b>149 8</b>	<b>149 2</b>

1 2014 has been restated to exclude £4 8 million of agency employee costs

Remuneration in respect of the Directors was as follows

£million	2015	2014
Emoluments	1 8	1 3

Further details of individual Directors' remuneration, pension benefits and share awards are shown in the Directors' remuneration report on pages 56 to 69

### Key management personnel

The remuneration of key management during the year was as follows

£million	2015	2014
Short term benefits	4 4	3 3
Termination payments	–	1 0
Share based payments expense	1 1	0 5
	<b>5 5</b>	<b>4 8</b>

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

**12 Property, plant and equipment**

£million	Land and buildings	Plant and equipment	Total
<b>Cost</b>			
At 1 January 2014	54.6	282.6	337.2
Additions	2.6	22.3	24.9
Businesses acquired	–	0.2	0.2
Disposals	(2.0)	(5.2)	(7.2)
Net exchange adjustment	(0.8)	(1.7)	(2.5)
At 1 January 2015	54.4	298.2	352.6
Additions	1.4	13.7	15.1
Businesses acquired	0.6	0.6	1.2
Disposals	(0.5)	(22.3)	(22.8)
Transfers	–	(2.4)	(2.4)
Net exchange adjustment	(0.7)	(2.6)	(3.3)
<b>At 31 December 2015</b>	<b>55.2</b>	<b>285.2</b>	<b>340.4</b>
<b>Depreciation and impairment</b>			
At 1 January 2014	20.1	228.5	248.6
Depreciation charge	1.7	14.8	16.5
Impairment	0.3	0.9	1.2
Disposals	(1.3)	(5.1)	(6.4)
Net exchange adjustment	(0.4)	(0.9)	(1.3)
At 1 January 2015	20.4	238.2	258.6
Depreciation charge	1.8	14.1	15.9
Impairment	–	1.4	1.4
Disposals	(0.4)	(21.7)	(22.1)
Transfers	–	(1.1)	(1.1)
Net exchange adjustment	(0.3)	(1.6)	(1.9)
<b>At 31 December 2015</b>	<b>21.5</b>	<b>229.3</b>	<b>250.8</b>
<b>Net book value</b>			
<b>At 31 December 2015</b>	<b>33.7</b>	<b>55.9</b>	<b>89.6</b>
At 31 December 2014	34.0	60.0	94.0

Included within land and buildings are three (2014: three) investment properties with a carrying value of £0.8 million (2014: £0.8 million). The fair value of these properties is £3.9 million (2014: £4.0 million).

Included within the impairment charge for the year is £1.2 million (2014: £1.2 million) included within items excluded from underlying profit.

The Group identified indicators of impairment at one site during the year. The net book value of £2.7 million exceeded the £1.5 million value in use and as a result an impairment of £1.2 million was recognised. The key assumptions applied for the value in use calculation were a post-tax discount factor of 9.6% and an annual growth rate of 1.8% over a ten year projection period. A 10% reduction in revenue would result in a £0.1 million increase in the impairment charge.

Capitalised software with a cost of £2.4 million and accumulated depreciation of £1.1 million has been transferred to intangible assets.

**13 Goodwill**

	£million
<b>Cost</b>	
At 1 January 2014	63.9
Additions	2.1
Net exchange adjustment	3.4
At 1 January 2015	69.4
Additions	22.4
Net exchange adjustment	3.1
<b>At 31 December 2015</b>	<b>94.9</b>

Goodwill is attributed to the following cash generating units ('CGUs') in the divisions shown below

£million	2015	2014
<b>Industrial Sensing and Control</b>		
Variable Components	26.0	24.6
Optoelectronics	19.5	18.4
Roxspur	2.1	2.1
<b>Advanced Components</b>		
Aero Stanrew	22.4	-
Power and Hybrid	5.2	5.1
Resistors	2.0	1.9
<b>Integrated Manufacturing Services</b>		
TT electronics integrated manufacturing services USA	8.5	8.1
TT electronics integrated manufacturing services Suzhou	5.1	5.1
New Chapel Electronics, UK	3.4	3.4
<b>Other</b>	<b>0.7</b>	<b>0.7</b>

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

As part of the annual budgeting and strategic planning processes, the Group prepares cash flow forecasts for the following five years. In 2015, the growth rate assumed after this five-year period is based on long-term GDP projections capped at long-term inflation rates of the primary market for the CGU, in perpetuity. The long-term inflation rate used was 2% for the UK, US and Chinese businesses (2014: 2% for the UK business and 3% for the US and Chinese businesses).

The growth rates assume that demand for our products remains broadly in line with the underlying economic environment in the long term future. Taking into account our expectation of future market conditions, we believe that the evolution of selling prices and cost measures put into place will lead to a sustained improvement in profitability which is higher than in recent years.

Aero Stanrew was acquired within two weeks of the balance sheet date and therefore the fair value is considered to be equal to the carrying values of the assets recognised on acquisition (including goodwill).

**13 Goodwill (continued)**

The pre tax discount rates used to discount the forecast cash flows are

	2015	2014
Variable Components	12.9%	9.5%
Optoelectronics	13.0%	9.5%
Power and Hybrid	11.9%	10.8%
Roxspur	11.0%	n/a
TT electronics integrated manufacturing services, USA	13.0%	9.5%
TT electronics integrated manufacturing services, Suzhou	13.6%	11.5%
New Chapel Electronics, UK	11.3%	10.8%

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

The goodwill allocated to each of Variable Components, Optoelectronics, Aero Stanrew, Power and Hybrid Roxspur TT electronics integrated manufacturing services, USA, TT electronics integrated manufacturing services, Suzhou, and New Chapel Electronics are considered to be individually significant. After translation using year end foreign exchange rates these CGUs represent 97% or £92.2 million of the total goodwill balance.

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

£million	2015	2014
Variable Components	23.6	31.1
Optoelectronics	26.4	49.8
Power and Hybrid	22.5	27.3
Roxspur	12.6	n/a
TT electronics integrated manufacturing services, USA	11.6	20.5
TT electronics integrated manufacturing services, Suzhou	51.8	56.4
New Chapel Electronics, UK	2.7	1.5

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

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

Other key assumptions and sensitivities are as follows

**Long term growth rate**

The budget and strategic review for these companies have been extrapolated in perpetuity using long term GDP projections capped at long term inflation rates of the primary market for the CGU in perpetuity. A key assumption in deriving the growth rate is that the businesses will grow in line with the underlying economic environment for the foreseeable future. Revenue would need to decrease annually by the following amounts for the carrying values to be impaired.

	2015	2014
Variable Components	9.1%	20.0%
Optoelectronics	12.2%	24.1%
Power and Hybrid	14.2%	18.2%
Roxspur	14.8%	n/a
TT electronics integrated manufacturing services, USA	6.8%	13.7%
TT electronics integrated manufacturing services, Suzhou	26.0%	27.2%
New Chapel Electronics, UK	0.4%	2.2%

**13 Goodwill (continued)**

**Discount rate**

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

	2015	2014
Variable Components	21.1%	14.6%
Optoelectronics	22.5%	21.3%
Power and Hybrids	25.3%	21.3%
Roxspur	25.5%	n/a
TT electronics integrated manufacturing services USA	20.0%	17.3%
TT electronics integrated manufacturing services Suzhou	47.1%	29.0%
New Chapel Electronics UK	17.1%	13.8%

**Cash flows**

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

	2015	2014
Variable Components	46.2%	41.8%
Optoelectronics	48.3%	62.4%
Power and Hybrids	61.3%	57.5%
Roxspur	65.7%	n/a
TT electronics integrated manufacturing services USA	40.6%	52.6%
TT electronics integrated manufacturing services Suzhou	75.8%	68.7%
New Chapel Electronics, UK	40.0%	26.4%

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

**14 Other intangible assets**

£million	Product development costs	Patents, licences and other	Customer relationships	Total
<b>Cost</b>				
At 1 January 2014	272	110	35	417
Additions	68	43	–	111
Businesses acquired	–	–	45	45
Net exchange adjustment	(12)	01	01	(10)
At 1 January 2015	<b>328</b>	<b>154</b>	<b>81</b>	<b>563</b>
Additions	13	25	–	38
Businesses acquired	–	23	166	189
Disposals	–	(01)	–	(01)
Transfers	–	24	–	24
Net exchange adjustment	–	01	01	02
<b>At 31 December 2015</b>	<b>341</b>	<b>226</b>	<b>248</b>	<b>815</b>
<b>Amortisation</b>				
At 1 January 2014	161	47	28	236
Charge for the year	41	18	06	65
Impairment	84	–	–	84
Net exchange adjustment	(07)	01	01	(05)
At 1 January 2015	<b>279</b>	<b>66</b>	<b>35</b>	<b>380</b>
Charge for the year	17	27	08	52
Impairment	–	05	–	05
Transfers	–	11	–	11
Net exchange adjustment	–	–	01	01
<b>At 31 December 2015</b>	<b>296</b>	<b>109</b>	<b>44</b>	<b>449</b>
<b>Net book value</b>				
<b>At 31 December 2015</b>	<b>45</b>	<b>117</b>	<b>204</b>	<b>366</b>
At 31 December 2014	49	88	46	183

Included within patents, licences and other are intangible assets under construction with a carrying value of £0.9 million (2014: £0.8 million)

Included within the amortisation charge for the year is £0.8 million (2014: £0.7 million) included within items excluded from underlying profit

Capitalised software with a cost of £2.4 million and accumulated depreciation of £1.1 million has been transferred from property, plant and equipment

The £8.4 million impairment of product development costs in 2014 followed a detailed appraisal of capitalised development expenditure undertaken as part of a wider strategic review

**15 Inventories**

£million	2015	2014
Raw materials	417	421
Work in progress	195	194
Finished goods	187	174
	<b>799</b>	<b>789</b>

Inventories are stated after deduction of a provision for slow moving and obsolete items of £28.2 million (2014: £27.6 million)

**16 Trade and other receivables**

£million	2015	2014
Trade receivables	589	586
Prepayments	58	64
Other receivables	75	57
	<b>722</b>	<b>707</b>

Provisions for impairment in respect of trade receivables are shown in note 20(d)(ii)

**17 Trade and other payables**

£million	2015	2014
<b>Current liabilities</b>		
Trade payables	38 5	43 2
Taxation and social security	4 3	4 0
Other payables, accruals and deferred income	40 9	34 4
	<b>83 7</b>	<b>81 6</b>

£million	2015	2014
<b>Non-current liabilities</b>		
Accruals and deferred income	4 2	6 1
	<b>4 2</b>	<b>6 1</b>

**18 Provisions**

£million	Operational Improvement			Total
	Plan	Reorganisation	Legal and other	
At 1 January 2014	2 7	2 1	5 4	10 2
Utilised	(1 8)	(0 7)	(1 0)	(3 5)
Released	(0 3)	–	(0 1)	(0 4)
Arising during the year	11 6	0 7	0 5	12 8
At 1 January 2015	<b>12 2</b>	<b>2 1</b>	<b>4 8</b>	<b>19 1</b>
Utilised	(4 9)	(0 6)	(0 6)	(6 1)
Released	(1 4)	–	(0 3)	(1 7)
Arising during the year	–	0 2	1 7	1 9
Exchange differences	(0 5)	0 1	–	(0 4)
<b>At 31 December 2015</b>	<b>5 4</b>	<b>1 8</b>	<b>5 6</b>	<b>12 8</b>

The Operational Improvement Plan provision relates to fundamental restructuring of the manufacturing footprint and sales organisation of the Transportation Sensing and Control and Industrial Sensing and Control divisions. The balance as at 31 December 2015 includes the directors' best estimate of costs to complete the Operational Improvement Plan. The release in the year relates to the transfer of manufacturing at Werne, Germany to our best cost facilities in Romania and the closure of the facility at Fullerton, USA and transfer of production to Mexico.

The Reorganisation provision primarily relates to the restructuring programme associated with the closure of the Boone, North Carolina operations, costs on site consolidation in the UK and the establishment of a Romania facility for the IMS division. The utilisation in the year relates to costs incurred on site consolidation in the UK.

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

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

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

£million	2015	2014
Non-current	0 2	0 2
Current	12 6	18 9
	<b>12 8</b>	<b>19 1</b>

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

**19 Borrowings**

£million	Maturity	Currency of denomination	Current	Non-current	Total
<b>31 December 2015</b>					
£75 million multi currency revolving credit facility	2017	GBP	–	55.0	55.0
	2017	EUR	–	13.3	13.3
\$40 million USD bilateral revolving credit facility	2017	USD	–	20.4	20.4
\$20 million USD bilateral revolving credit facility	2017	USD	–	6.8	6.8
AB Mikroelektronik GmbH loan	2016	EUR	1.3	–	1.3
Overdrafts			0.6	–	0.6
Finance leases			0.1	–	0.1
Loan arrangement fee			(0.2)	(0.3)	(0.5)
<b>Total</b>			<b>1.8</b>	<b>95.2</b>	<b>97.0</b>
<b>31 December 2014</b>					
£45 million multi currency revolving credit facility	2017	GBP	18.0	–	18.0
	2017	EUR	7.8	–	7.8
\$30 million USD bilateral revolving credit facility	2017	USD	19.3	–	19.3
\$10 million USD bilateral revolving credit facility	2017	USD	4.5	–	4.5
AB Mikroelektronik GmbH loan	2015	EUR	4.5	–	4.5
Finance leases			0.1	–	0.1
Loan arrangement fee			(0.5)	–	(0.5)
<b>Total</b>			<b>53.7</b>	<b>–</b>	<b>53.7</b>

In August 2012, the Group agreed a new five year committed revolving credit facility of £72.1 million and a further uncommitted incremental accordion facility of £43.6 million with a club of four banks comprising HSBC, The Royal Bank of Scotland, Santander UK and Barclays Bank as well as two separate bilateral agreements with Fifth Third Bank and Comerica Bank, both within the USA. In March 2015 £20.0 million of the accordion facility was converted with the remaining £23.6 million converted in December 2015 giving the Group a total committed facility with these institutions of £115.7 million. At 31 December 2015 £95.5 million of the revolving credit facility was drawn down. Arrangement fees with a gross cost before amortisation of £1.1 million and amortised cost of £0.5 million have been netted off against these borrowings.

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

The loan in AB Mikroelektronik GmbH is an export facility loan and used for working capital purposes. As at 31 December 2015 £1.3 million of the £4.0 million facility was utilised (2014: £3.8 million of the £4.2 million facility was utilised and a research loan of £0.7 million was fully utilised).

Under the five year revolving credit there is a limit on inter group lending outside the guarantee group. As at 31 December 2014 that limit was exceeded causing the outstanding loan balance of £49.6 million to become technically repayable on demand and disclosed as a current liability. Steps taken during the waiver period granted by the lending banks resulted in compliance with the limit therefore as at 31 December 2015 the loan balance of £95.5 million became non-current.

**Undrawn facilities**

At 31 December 2015 the total borrowing facilities available to the Group amounted to £166.3 million (2014: £165.3 million).

At 31 December 2015 the Group had available £37.6 million (2014: £36.1 million) of undrawn committed borrowing facilities (comprising the main facility £20.3 million (2014: £21.1 million), China £14.6 million (2014: £14.5 million) and Austria £2.7 million (2014: £0.5 million)) and £31.4 million (2014: £75.1 million) of undrawn uncommitted borrowing facilities representing overdraft lines and the accordion facility.

## 20 Financial risk management

The main risks arising from the Group's financial instruments are foreign exchange risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from exposures that occur in the normal course of business and are managed by the Group's Treasury department in close co-operation with the Group's business divisions and operating companies under the oversight of a Tax and Treasury Committee which is chaired by the Chief Financial Officer. The responsibilities of the Group's Treasury department include the monitoring of financial risks, management of cash resources, debt and capital structure management, approval of counterparties and relevant transaction limits, and oversight of all significant treasury activities undertaken by the Group. The Group Treasury department operates as a service centre to the business divisions of the Group and not as a profit centre.

A Group Treasury policy has been approved by the Board of Directors and is periodically updated to reflect developments in the financial markets and the financial exposure facing the Group.

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

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

### a) Derivatives, financial instruments and risk management

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

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

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

In 2014 the Group used average rate forward currency hedges to mitigate translational foreign exchange risk taking into account the level of forecast profits in foreign currencies, natural hedges and the cost of taking out cover. During 2014, the Group took out average rate forward contracts hedging GBP against a portion of Euro forecast cash flows for 2014 and generated a gain of £0.1 million on the hedges that matured in 2014. There were no average rate forward contracts outstanding at 31 December 2014 and no such average rate forward currency hedges were entered into during 2015.

The Group's interest rate management policy is to maintain a balance between fixed and floating rates of interest on borrowings and deposits, and to use interest rate derivatives when appropriate and pre-approved by the Treasury Committee. To meet this objective the Group has entered into a \$30 million interest rate swap from floating to fixed in 2014, maturing in 2019.

During 2014 the Group took out hedges against a portion of the commodity purchases for 2014. In 2014 the Group generated no gain or loss on the hedges that matured during 2014. No such hedges were entered into during 2015.

The forward currency contracts, interest rate swaps and commodity hedges have been designated as cash flow hedges and the mark to market valuation of these derivatives at 31 December 2015 is taken to the hedging reserve within equity. At 31 December 2015 the Group had a net derivative financial liability of £1.1 million (2014: £0.9 million).

**20 Financial risk management (continued)****b) Foreign exchange risk**

The Group's exposure to foreign currency is shown below

€million	GBP	USD	Euro	Other	Total
<b>31 December 2015</b>					
Trade and other receivables	0.2	6.8	1.7	0.3	9.0
Cash and cash equivalents	0.1	12.4	1.2	0.4	14.1
Borrowings	-	(28.1)	(13.7)	-	(41.8)
Trade and other payables	(6.0)	(4.7)	(0.9)	(0.8)	(12.4)
	(5.7)	(13.6)	(11.7)	(0.1)	(31.1)
<b>31 December 2014</b>					
Trade and other receivables	0.1	6.7	2.8	0.2	9.8
Cash and cash equivalents	-	6.8	8.1	0.5	15.4
Borrowings	-	(23.8)	(7.8)	-	(31.6)
Trade and other payables	(4.3)	(5.1)	(0.7)	(0.8)	(10.9)
	(4.2)	(15.4)	2.4	(0.1)	(17.3)

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

€million	2015	2014
US dollar	(0.8)	(0.9)
Euro	(1.2)	0.2

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

The Group finances operations by obtaining funding through external borrowings and, where they are in foreign currencies, these borrowings may be designated as net investment hedges. This enables gains and losses arising on retranslation of these foreign currency borrowings to be charged to other comprehensive income, providing a partial offset in equity against the gains and losses arising on translation of the net assets of foreign operations.

**c) Interest rate risk**

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates primarily impact borrowings by changing their future cash flows (floating rate debt) or their fair value (fixed rate debt) and deposits. The Group's objective is to manage this interest rate exposure through the use of interest rate derivatives.

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

€million	Floating rate	Fixed rate	Non interest bearing	2015 total
<b>Financial assets</b>				
Trade and other receivables	-	-	62.7	62.7
Cash and cash equivalents	40.9	-	-	40.9
Derivative financial instruments	-	-	0.2	0.2
Total financial assets	40.9	-	62.9	103.8
<b>Financial liabilities</b>				
Borrowings (including interest effects of derivatives)	(75.2)	(21.8)	-	(97.0)
Trade and other payables	-	-	(85.9)	(85.9)
Derivative financial instruments	-	-	(1.3)	(1.3)
Total financial liabilities	(75.2)	(21.8)	(87.2)	(184.2)

At 31 December 2015 22% (2014: 37%) of total debt was at a fixed rate when including the effect of derivatives and the balance was at floating rate.

**20 Financial risk management (continued)**

£million	Floating rate	Fixed rate	Non interest bearing	2014 total
<b>Financial assets</b>				
Trade and other receivables	–	–	62.4	62.4
Cash and cash equivalents	39.4	–	–	39.4
Derivative financial instruments	–	–	0.4	0.4
<b>Total financial assets</b>	<b>39.4</b>	<b>–</b>	<b>62.8</b>	<b>102.2</b>
<b>Financial liabilities</b>				
Borrowings (including interest effects of derivatives)	(33.6)	(20.1)	–	(53.7)
Trade and other payables	–	–	(86.3)	(86.3)
Derivative financial instruments	–	–	(1.3)	(1.3)
<b>Total financial liabilities</b>	<b>(33.6)</b>	<b>(20.1)</b>	<b>(87.6)</b>	<b>(141.3)</b>

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

Considering the net debt position of the Group at 31 December 2015, any increase in interest rates would result in a net loss in the consolidated income statement and any decrease in interest rates would result in a net gain. The effect on profit after tax of a 1% movement in £LIBOR based on the year end floating rate net cash and with all other variables held constant, is estimated to be £0.6 million (2014: £0.3 million).

**d) Credit risk**

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

**Credit risk relating to trade receivables**

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

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

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

There were no material impairments of trade receivables as at 31 December 2015 or 2014. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets.

**20 Financial risk management (continued)****(i) Risk for trade receivables by geographical regions**

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

£million	2015	2014
Europe (including UK)	358	362
North America	103	108
Central and South America	04	02
Asia	119	112
Rest of the World	05	02
	<b>589</b>	<b>586</b>

**(ii) Impairment losses**

The ageing of trade receivables at 31 December was

£million	2015		2014	
	Gross	Impairment	Gross	Impairment
Not past due	508	–	480	–
Past due 0 – 60 days	75	–	96	–
Past due 61 – 120 days	09	(03)	13	(03)
More than 120 days	03	(03)	01	(01)
	<b>595</b>	<b>(06)</b>	<b>590</b>	<b>(04)</b>

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

£million	2015	2014
At 1 January	(04)	(13)
(Charged)/credited to income statement	(04)	02
Utilised	02	07
<b>At 31 December</b>	<b>(06)</b>	<b>(04)</b>

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

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

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

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

£million	2015	2014
Other receivables	38	37
Cash and cash equivalents	409	394
Derivative financial instruments (current assets)	02	04

**20 Financial risk management (continued)**

**e) Liquidity risk**

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

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

At 31 December 2015, the Group had £37.6 million of undrawn committed borrowing facilities (2014: £35.6 million) and £31.4 million (2014: £75.1 million) of undrawn uncommitted borrowing facilities.

**Maturity of financial assets and liabilities**

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

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>31 December 2015</b>						
Trade and other receivables	–	61.3	1.4	–	–	62.7
Cash and cash equivalents	40.9	–	–	–	–	40.9
	40.9	61.3	1.4	–	–	103.6
Borrowings	(0.5)	(1.3)	–	(95.2)	–	(97.0)
Trade and other payables	–	(73.6)	(8.1)	(1.5)	(2.7)	(85.9)
	(0.5)	(74.9)	(8.1)	(96.7)	(2.7)	(182.9)

At 31 December 2015, the Group had derivative financial instruments hedging a notional contractual amount of £71.1 million of foreign exchange, commodity and interest rate cash flows. Of this total amount, £50.8 million matures within one year.

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>31 December 2014</b>						
Trade and other receivables	0.9	59.0	2.4	–	–	62.3
Cash and cash equivalents	38.8	0.6	–	–	–	39.4
	39.7	59.6	2.4	–	–	101.7
Borrowings	(53.7)	–	–	–	–	(53.7)
Trade and other payables	(0.5)	(72.8)	(8.5)	(1.7)	(2.8)	(86.3)
	(54.2)	(72.8)	(8.5)	(1.7)	(2.8)	(140.0)

## 20 Financial risk management (continued)

### f) Fair value of financial assets and liabilities

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

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

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

	Fair value hierarchy	2015		2014	
		Carrying value	Fair value	Carrying value	Fair value
<b>Held at amortised cost</b>					
Cash and cash equivalents	n/a	40.9	40.9	39.4	39.4
Trade and other receivables	n/a	62.7	62.7	62.3	62.3
Trade and other payables	n/a	(85.9)	(85.9)	(86.3)	(86.3)
Borrowings	n/a	(97.0)	(97.0)	(53.7)	(53.7)
<b>Held at fair value</b>					
Derivative financial instruments (assets)	2	0.2	0.2	0.4	0.4
Derivative financial instruments (liabilities)	2	(1.3)	(1.3)	(1.3)	(1.3)
<b>Held at depreciated cost</b>					
Investment properties	2	0.8	3.9	0.8	4.0

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

- cash and cash equivalents, trade and other receivables, trade and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments
- the fair value of borrowings is estimated by discounting future cash flows using rates currently available for debt and remaining maturities
- the fair value of derivative financial instrument assets (£0.2 million) and liabilities (£1.3 million) are estimated by discounting expected future cash flows using current market indices such as yield curves and forward exchange rates over the remaining term of the instrument (level 2) and
- the fair value of investment properties are based on market valuations obtained through third party valuations (level 2)

### g) Capital management

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

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

Dividends are paid when the Board consider it appropriate to do so taking into account the availability of funding. The Group has a progressive dividend policy.

The Group is in a net debt position of £56.1 million (2014: £14.3 million). Included within the debt facilities are certain financial covenants related to net debt/EBITDA before exceptional items and EBITDA before exceptional items/net finance charges for which compliance certificates are produced on a 12 month rolling basis every half year. All financial covenants were fully complied with during the year and up to the date of approval of the financial statements.

**21 Deferred tax**

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

£million	As at 1 January 2015	Continuing operations	Recognised on acquisition	Recognised in equity/ OCI	Net exchange translation	As at 31 December 2015
Intangible assets	(6 3)	0 1	(3 4)	–	(0 2)	(9 8)
Property, plant and equipment	(1 2)	(0 1)	(0 1)	–	(0 1)	(1 5)
Deferred development costs	(1 4)	(0 1)	–	–	–	(1 5)
Retirement benefit obligations	2 6	(0 3)	–	1 9	–	4 2
Inventories	2 1	0 1	–	–	0 1	2 3
Provisions	3 7	1 5	–	–	0 1	5 3
Tax losses	1 4	0 1	–	–	(0 1)	1 4
Unremitted overseas earnings	(1 1)	(0 2)	–	–	–	(1 3)
Share based payments	(0 1)	0 2	–	0 1	–	0 2
Short term timing differences	0 3	0 9	–	–	0 1	1 3
Deferred tax asset/(liability)	–	2 2	(3 5)	2 0	(0 1)	0 6

£million	As at 1 January 2014	Continuing operations	Recognised on acquisition	Recognised in equity/ OCI	Net exchange translation	As at 31 December 2014
Intangible assets	(4 8)	(0 3)	(0 9)	–	(0 3)	(6 3)
Property, plant and equipment	(1 7)	0 6	–	–	(0 1)	(1 2)
Deferred development costs	(3 3)	1 9	–	–	–	(1 4)
Retirement benefit obligations	4 4	(0 8)	–	(1 0)	–	2 6
Inventories	2 5	(0 6)	–	–	0 2	2 1
Provisions	5 1	(1 6)	–	–	0 2	3 7
Tax losses	0 8	0 6	–	–	–	1 4
Unremitted overseas earnings	(0 9)	(0 2)	–	–	–	(1 1)
Share based payments	0 1	(0 1)	–	(0 1)	–	(0 1)
Short term timing differences	0 4	(0 1)	–	–	–	0 3
Deferred tax asset/(liability)	2 6	(0 6)	(0 9)	(1 1)	–	–

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

£million	2015	2014
Deferred tax assets	4 9	5 6
Deferred tax liabilities	(4 3)	(5 6)
Net deferred tax asset	0 6	–

The Group has recognised deferred tax assets of £0.6 million in a number of entities which have incurred losses in 2014 or 2015. Such assets have been recognised due to the availability of suitable taxable profits in future periods to support their recovery.

**21 Deferred tax (continued)**

At 31 December 2015, the gross amount and expiry date of losses available for carry forward are as follows

£million	Expiring within 5 years	Expiring within 6-10 years	Unlimited	Total
Losses for which a deferred tax asset has been recognised	–	19	38	57
Losses for which no deferred tax asset has been recognised	0.4	2.2	33.0	35.6
<b>Deferred tax asset/(liability)</b>	<b>0.4</b>	<b>4.1</b>	<b>36.8</b>	<b>41.3</b>

At 31 December 2014 the gross amount and expiry date of losses available for carry forward are as follows

£million	Expiring within 5 years	Expiring within 6-10 years	Unlimited	Total
Losses for which a deferred tax asset has been recognised	–	1.2	4.3	5.5
Losses for which no deferred tax asset has been recognised	1.1	1.1	35.3	37.5
<b>Deferred tax asset/(liability)</b>	<b>1.1</b>	<b>2.3</b>	<b>39.6</b>	<b>43.0</b>

Included within the £35.6 million (2014: £37.5 million) of unrecognised tax losses in the table above is £27.0 million (2014: £23.2 million) of tax losses within the Company. Since UK tax legislation does not allow the utilisation of brought forward tax losses of one UK entity against the current year tax profits of another UK entity, the use of these tax losses is limited.

At 31 December 2015 the Group had other items for which no deferred tax assets have been recognised as follows

£million	2015	2014
Other temporary differences	15.0	11.1

At the balance sheet date the aggregate unrecognised deferred tax liability in respect of undistributed earnings of overseas subsidiaries is £1.4 million (2014: £1.1 million)

## 22 Retirement benefit schemes

### Defined contribution schemes

The Group operates 401(k) plans in North America and defined contribution arrangements in the rest of the world. The assets of these schemes are held independently of the Group. The total contributions charged by the Group in respect of defined contribution schemes were £2.4 million (2014: £2.4 million).

### Defined benefit schemes

During the year the Group operated a significant defined benefit scheme in the UK and schemes in the USA (which include a post retirement medical benefit element). The Group's main scheme is the UK plan which commenced in 1993 and increased in size in 2006 and 2007 through the merger of the UK former schemes. The parent company is the sponsoring employer in the UK plan. The UK plan is governed by TTG Pension Trustees Limited (the 'Trustee') that has control over the operation, funding and investment strategy in consultation with the Group.

The Scheme exposes the Group to actuarial risks such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual, entity specific or scheme specific risks, but given the material nature of the UK scheme the Group has developed a comprehensive strategy to manage the financial risk associated with it:

- Maintaining a long term working partnership with the Trustee to ensure strong governance of risks within the UK scheme. The UK scheme is a long term undertaking and is managed accordingly in order to provide security to members' benefits and value for money to the Group.
- A prudent investment strategy is pursued by seeking risk rewarded long term returns whilst removing the majority of liability mismatching unrewarded risks. As such the Group has in place financial hedging that removes the majority of interest rate yield and inflation risk. This reduces the expected impact of a 25bps fall in yields from a circa £13 million increase in deficit down to a circa £5 million increase, thereby reducing volatility. This strategy has been in place for a number of years protecting the UK scheme's position since December 2013 when yields commenced a prolonged decline.
- The Group recognises that seeking rewarded risk returns in its investment strategy could lead to short term fluctuations in funding levels depending on market conditions. The Group considers that by maintaining a good relationship with the Trustee it will be able to utilise flexibility in the funding regime to even out the impact of short term market underperformance to enhance predictability of Group pension contributions. This creates a suitable balance between the needs of the UK scheme, the Group, and the Members.

The Trustee's investment strategy mitigates the majority of these risks. Market (investment) risk is addressed by diversification across asset classes and managers within those assets classes. With regard to currency risk the Trustees hedge around 50% of developed market equities, 100% of alternatives and 100% of bonds (excluding local currency emerging market debt).

In addition, the Trustee has a framework in place to hedge a proportion of the Scheme's interest rate and inflation exposures. This framework is managed by investing in both physical and, for efficiency, derivative investments and currently has a target to hedge 75% of the interest rate and 80% of the inflation linked liabilities. The target hedge level is kept under review and any change would be in consultation with the Group.

The Trustee does not currently hedge the longevity risk, although prudent assumptions are made regarding anticipated longevity for the purposes of the actuarial valuation and Recovery Plan.

The Trustee, in conjunction with the Group, has a duty to ensure that the UK plan has an appropriate funding strategy in place that meets any local statutory requirements. The objective, which has been negotiated and agreed between the Group and the Trustee, is that the UK plan should target 100% funding on a basis that should ensure benefits can be paid as they fall due. Any shortfall in the assets relative to the funding target will be financed over a period that ensures the contributions are reasonably affordable to the Group.

The weighted average duration of the UK defined benefit obligation is 17 years.

UK legislation requires the Trustee to carry out funding valuations at least every three years and to target full funding against a basis that prudently reflects the UK plan's risk exposure.

The Trustee allocates the UK plan's assets across a range of investments to help diversify and manage risks. In particular a significant portion of the assets are in investments that aim to broadly match the term and nature of the liabilities.

The triennial valuation of the UK scheme as at April 2013 showed a deficit of £19.1m against the Trustee's funding objective compared with £39.4 million at April 2010. It was agreed with the Trustee that the existing recovery plan is sufficient to address the deficit, namely contributions of £4.5 million to be paid in respect of 2016, £4.3 million was paid during the year, £3.2 million in respect of 2015 and £1.1 million in respect of 2014, a further £1.1 million was paid early in 2016 in respect of 2015. In addition, the Company has set aside £3.0 million to be utilised in agreement with the Trustee for reducing the long term liabilities of the scheme.

Both the UK and USA schemes are closed to new members and the UK scheme was closed to future accrual in 2010.

**22 Retirement benefit schemes (continued)**

An actuarial valuation of the USA defined benefit scheme was carried out by independent qualified actuaries in 2015 using the projected unit credit method. Pension scheme assets are stated at their market value at 31 December 2015.

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

£million	2015	2014
UK	18.1	10.5
USA	3.0	1.9
	<b>21.1</b>	<b>12.4</b>

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

%	2015	2014
Discount rate	3.8	3.6
Inflation rate (RPI)	3.2	3.2
Increases to pensions in payment (LPI 5% pension increases)	3.1	3.1
Increases to deferred pensions (CPI)	2.2	2.2

The mortality tables applied by the actuaries at 31 December 2015 and 31 December 2014 were S1NA tables adjusted by + one year, with a 1.25% long term rate of improvement in conjunction with the CMI 2012 projections. The assumptions are equivalent to life expectancies as follows:

Current pensioner aged 65-87 years (male), 89 years (female)

Future retiree upon reaching 65-89 years (male), 92 years (female)

A decrease in the discount rate by 0.1% per annum increases the liabilities by approximately £7.8 million. An increase by 0.1% per annum in the inflation rate increases the liabilities by approximately £5.3 million, by £1.9 million for pensions in payment and £3.4 million for deferred pensions. An increase in the life expectancy of 1 year increases the liabilities by approximately £14.7 million.

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

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

£million	2015	2014
Equities		
UK – Quoted	1.7	1.8
– Unquoted	16.1	14.1
Overseas – Quoted	31.5	34.5
– Unquoted	79.2	71.1
Government bonds		
UK – Fixed	39.9	12.2
– Index linked	54.3	20.7
Overseas	10.3	18.9
Corporate bonds	83.3	66.4
Cash and cash equivalents	71.9	71.9
Derivatives	12.5	125.1
Other	41.5	28.2
Fair value of assets	442.2	464.9
Present value of defined benefit obligation	(463.3)	(477.3)
Net liability recognised in the Consolidated balance sheet	(21.1)	(12.4)

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

**22 Retirement benefit schemes (continued)**

Amounts recognised in the Consolidated income statement are

£million	2015	2014
Scheme administration costs	0.8	0.7
Net interest cost	0.4	0.8

The actual return on schemes assets was a loss of £7.4 million (2014 gain of £84.0 million)

Changes in the present value of the defined benefit obligation are

£million	2015	2014
Defined benefit obligation at 1 January	477.3	414.6
Interest on obligation	16.9	18.7
Effect of changes in financial assumptions	(12.5)	61.5
Benefits paid	(19.8)	(17.5)
Transfer from other non current liabilities	1.4	-
Defined benefit obligation at 31 December	463.3	477.3
UK	453.1	468.7
USA	10.2	8.6
	463.3	477.3

Changes in the fair value of the schemes' assets are

£million	2015	2014
Fair value of schemes' assets at 1 January	464.9	394.1
Interest income on defined benefit scheme assets	16.5	17.9
Return on scheme assets, excluding interest income	(23.9)	66.1
Contributions by employer	5.3	5.0
Pension scheme expenses	(0.8)	(0.7)
Benefits paid	(19.8)	(17.5)
Fair value of schemes' assets at 31 December	442.2	464.9

**23 Share capital**

£million	2015	2014
<b>Issued and fully paid</b>		
162,019,120 (2014: 159,008,330) ordinary shares of 25p each	40.5	39.8

The performance conditions for the Long Term Incentive Plan awards issued in 2012 were not met and, accordingly, no ordinary shares were issued during 2015 in connection with the Long Term Incentive Plan.

The Company issued 435,121 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.5 million, which resulted in an increase in share premium of £0.3 million.

On 18 December 2015 the Company issued 2,575,669 ordinary shares (nominal value of £0.6 million) as part of the consideration for the acquisition of Aero Stanrew Group Ltd which resulted in an increase in share premium of £3.4 million.

## 24 Share-based payment plans

The Company has the following share based payment plans in operation at 31 December 2015

- Long Term Incentive Plan ( LTIP ) for senior executives
- Restricted Share Plan for certain senior executives and
- Sharesave plans for UK, German and Austrian employees and a Share Purchase plan for US employees

### a) Long Term Incentive Plans

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

	2015	2014
	Number of share awards	Number of share awards
At 1 January	2,543,688	3 629 342
Granted	4,049,219	1 739,150
Forfeited	(750,720)	(1,565,459)
Vested	(352,890)	(1,259,345)
At 31 December	5,489,297	2,543,688
Exercisable at 31 December	–	–

During 2014 and 2015 grants of awards were made under the LTIP for the issue of shares in 2017 and 2018 respectively. The award is a contingent right to receive shares in the future, subject to continued employment and the achievement of predetermined performance criteria. The performance targets attached to awards require the achievement of earnings per share ("EPS") and total shareholder return (TSR) targets as detailed in the Directors' remuneration report on page 65.

On 18 March, 7 September and 23 December 2015 grants of awards were made under the LTIP for the issue of up to 3 687 301 shares, 170,000 shares and 191 918 shares in 2018. On 9 May, 22 August and 31 December 2014 grants of awards were made under the LTIP for the issue of up to 1 185 484 shares, 223 214 shares and 330,452 shares in 2017.

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

The following table lists the inputs to the model

	2015			2014		
	Shares with a 23 December 2015 grant date	Shares with a 7 September 2015 grant date	Shares with a 18 March 2015 grant date	Shares with a 31 December 2014 grant date	Shares with a 22 August 2014 grant date	Shares with a 9 May 2014 grant date
Number of awards	191,918	170,000	3,687,301	330,452	223,214	1 185 484
Fair value at grant date	137	136	110 6p	64 7p	129 4p	166 2p
Share price at grant date	158 8	156 8	128 0p	101 5p	168 8p	216 8p
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil
Expected volatility	40%	40%	40%	40%	32%	38%
Expected weighted average life at 31 December (years)	3 0	2 8	2 3	3 0	2 7	2 3

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

On 18 March 2015, 172 896 (9 May 2014: 55 000) notional share awards were granted to senior executives which will ultimately be settled in cash. These awards are subject to the same vesting criteria as the 18 March, 7 September and 23 December 2015 (9 May 2014) LTIP grants.

The performance conditions for the LTIP grants made in 2012 were not met and accordingly, no ordinary shares were issued during 2015 in connection with the LTIP.

**24 Share-based payment plans (continued)**

**b) Restricted Share Plan**

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

On 25 March 2014, the Group granted 153 800 shares under the restricted share plan. The award is a contingent right to receive shares with 40% vesting on the third anniversary of the date of the grant and the remaining 60% vesting in April 2017 subject to continued employment with the Group and the achievement of predetermined performance criteria. The performance targets attached to the awards require the achievement of three equally weighted performance criteria: Revenue Growth Targets, Profit Margin Targets and Return on Capital Employed. The fair value of the shares at grant date 22 August 2014 was 202.0p.

On 22 August 2014, the Group granted 218,626 shares under the restricted share plan. The award is a contingent right to receive shares with 57% vesting on completion of a 0.66 year period and the remaining 43% vesting one year later subject to continued employment with the Group. The fair value of the shares at grant date 22 August 2014 was 159.8p.

On 18 March 2015, the Group granted 1,015,000 shares under the restricted share plan. The award is a contingent right to receive shares with 50% vesting on the third anniversary of the date of the grant and the remaining 50% vesting in April 2018 subject to continued employment with the Group and the achievement of predetermined performance criteria. Half of the award is subject to a performance condition based on the absolute earnings per share figure for the financial year ending 31 December 2017. The remaining half of the award is subject to a performance condition comparing the Company's total shareholder return performance against the constituent companies of the FTSE Small Cap Index (excluding investment trusts) over a period of three years commencing on the award date.

On 18 March 2015, 50 000 shares were also granted to a senior executive which will ultimately be settled in cash. This award is subject to the same criteria as the 18 March RSP grant.

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

	2015	2014
	Number of share awards	Number of share awards
At 1 January	649,326	481,900
Granted	1,015,000	372,426
Forfeited	(51,300)	(205,000)
<b>At 31 December</b>	<b>1,613,026</b>	<b>649,326</b>
<b>Exercisable at 31 December</b>	<b>-</b>	<b>-</b>

**c) Sharesave schemes**

The Group operates Sharesave schemes for participating employees in the UK, Germany and Austria under a three year plan (historically a five year plan was offered which was discontinued during 2013). Employees may purchase the Group's shares at a 20% discount to the market price on the day prior to the commencement of the offer up to a maximum contribution value of £6 000 (UK) or €7 200 (Germany/Austria) in any one year. Monthly contributions are saved with LloydsTSB plc via Equiniti Ltd, the Registrars, in the employee's share savings plan and will only be released to employees who remain in the Group's employment for a period of either three or five years from commencement of the savings contract. Options become exercisable on completion of either the three or five year term or within six months of leaving in certain circumstances.

#### 24 Share-based payment plans (continued)

	Date price set	Market price	Option price	Options outstanding
UK	03 September 2010	142 5p	114 0p	145 815
Germany/Austria	19 April 2011	169 0p	136 0p	32,029
UK	2 September 2011	162 0p	130 0p	50,584
Germany/Austria	31 May 2012	162 0p	130 0p	14 322
UK	31 August 2012	148 0p	119 0p	25 103
UK	30 August 2013	186 0p	149 0p	211,987
Germany/Austria	24 June 2014	192 0p	166 0p	53 042
UK	30 September 2014	167 0p	136 0p	544 515
Germany/Austria	19 October 2015	131 0p	106 0p	81 238
UK	22 September 2015	130 0p	131 0p	539 896

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

	2015	2015	2014	2014
pence	UK	Germany / Austria	UK	Germany / Austria
3 year scheme	42 0	48 0	43 0	53 0

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

	2015	2014
	Number of share awards	Number of share awards
At 1 January	1,834,598	1 328 505
Granted	631,026	723 452
Forfeited	(401,144)	(131,944)
Exercised	(365,969)	(85,415)
<b>At 31 December</b>	<b>1,698,511</b>	<b>1,834,598</b>
<b>Exercisable at 31 December</b>	<b>164,555</b>	<b>127,072</b>

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

The total share based payment charge for the year (excluding social security charge of £0.3 million (2014: £0.1 million credit) arising from the above share scheme plans was £1.7 million (2014: £1.3 million).

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

£million	Net cash	Borrowings and finance leases	Net (debt)/funds
At 1 January 2014	54.5	(27.6)	26.9
Cash flow	(15.3)	(24.9)	(40.2)
Non cash items	-	(0.2)	(0.2)
Exchange differences	0.2	(1.0)	(0.8)
At 1 January 2015	39.4	(53.7)	(14.3)
Cash flow	0.3	(41.6)	(41.3)
Non cash items	-	(0.2)	(0.2)
Exchange differences	0.6	(0.9)	(0.3)
<b>At 31 December 2015</b>	<b>40.3</b>	<b>(96.4)</b>	<b>(56.1)</b>

Net cash includes overdraft balances of £0.6 million (2014: £nil)

**26 Contingent liabilities**

The Group has contingent liabilities amounting to £0.3 million (2014: £0.3 million) in respect of performance bonds and guarantees entered into in the normal course of business. The Group is subject to claims which arise in the ordinary course of business. Other than those for which provisions have been made and included within note 18, the Directors consider the likelihood of any other claims giving rise to a significant liability to be remote.

**27 Capital commitments**

£million	2015	2014
Contractual commitments for the purchase of property, plant and equipment	3.9	6.7

**28 Operating leases**

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

£million	2015	2014
Fixtures and equipment	0.6	0.6
Land and buildings	3.3	2.8

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

£million	2015	2014
In less than one year	3.9	3.5
Between one and five years	9.7	11.5
After five years	3.4	8.0

**29 Related party transactions**

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

No related party transactions have taken place in 2015 or 2014 that have affected the financial position or performance of the Group.

Key management personnel and Directors' emoluments are disclosed in note 11.


## Financial Statements / Company balance sheet

£million	Note	2015	2014
<b>Fixed assets</b>			
Tangible assets	2	0 2	1 0
Intangible assets	2	6 2	5 9
Investments	3	96 5	49 6
Deferred tax asset	10	3 6	2 1
		<b>106 5</b>	<b>58 6</b>
<b>Current assets</b>			
Debtors	4	135 7	147 0
Cash at bank and in hand		3 2	3 7
		<b>138 9</b>	<b>150 7</b>
Creditors amounts falling due within one year	5	(52 4)	(11 4)
<b>Net current assets</b>		<b>86 5</b>	<b>139 3</b>
<b>Total assets less current liabilities</b>		<b>193 0</b>	<b>197 9</b>
Pension liability	10	(18 1)	(10 5)
<b>Net assets</b>		<b>174 9</b>	<b>187 4</b>
<b>Capital and reserves</b>			
Called up share capital	6	40 5	39 8
Share premium account	6	5 2	1 5
Profit and loss account	8	129 2	146 1
<b>Shareholders' funds</b>		<b>174 9</b>	<b>187 4</b>

Approved by the Board of Directors on 9 March 2016 and signed on their behalf by

Richard Tyson  
Director

Mark Hoad  
Director



## Financial Statements / Statements of changes in equity

Emillion	Share capital	Share premium	Profit and loss account	Total
At 1 January 2014	397	14	167.6	208.7
<b>Loss for the year (restated<sup>1</sup>)</b>	-	-	(17.5)	(17.5)
<b>Other comprehensive income</b>				
Remeasurement of defined benefit pension schemes (restated <sup>1</sup> )	-	-	6.1	6.1
Tax on remeasurement of defined benefit pension schemes (restated <sup>1</sup> )	-	-	(2.0)	(2.0)
Total other comprehensive income	-	-	4.1	4.1
<b>Transactions with owners recorded directly in equity</b>				
Dividends paid by the Company	-	-	(8.7)	(8.7)
Share based payments	-	-	0.8	0.8
Deferred tax on share based payments	-	-	(0.1)	(0.1)
New shares issued	0.1	0.1	(0.1)	0.1
<b>At 31 December 2014</b>	<b>398</b>	<b>15</b>	<b>146.1</b>	<b>187.4</b>
<b>Loss for the year</b>	-	-	(0.4)	(0.4)
<b>Other comprehensive income</b>				
Remeasurement of defined benefit pension schemes	-	-	(11.4)	(11.4)
Tax on remeasurement of defined benefit pension schemes	-	-	1.9	1.9
Total other comprehensive income	-	-	(9.5)	(9.5)
<b>Transactions with owners recorded directly in equity</b>				
Dividends paid by the Company	-	-	(8.7)	(8.7)
Share based payments	-	-	1.6	1.6
Deferred tax on share based payments	-	-	0.1	0.1
New shares issued	0.7	3.7	-	4.4
<b>At 31 December 2015</b>	<b>40.5</b>	<b>5.2</b>	<b>129.2</b>	<b>174.9</b>

1 Restated for pensions obligations as described in note 1 a)

## 1 Significant accounting policies

### a) Basis of preparation

The financial statements of TT Electronics plc ("the Company") were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied

In preparing these financial statements, the Company applies the recognition measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken

These are the Company's first financial statements prepared in accordance with FRS 101 In the transition to FRS 101 the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101 An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided below

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period The following exemptions have been taken in these financial statements

- Business combinations – Business combinations that took place prior to 1 January 2014 have not been restated
- Fair value or revaluation as deemed cost – At 1 January 2014, fair value has been used as deemed cost for properties previously measured at fair value

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures

- a Cash Flow Statement and related notes
- Disclosures in respect of transactions with wholly owned subsidiaries
- Disclosures in respect of capital management
- The effects of new but not yet effective IFRSs
- Disclosures in respect of the compensation of Key Management Personnel
- Comparative movement tables for tangible and intangible fixed assets

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements

The accounting policies set out in Note 2 of the Consolidated financial statements have unless otherwise stated been applied consistently to all years presented in the Company financial statements and in preparing an opening FRS 101 IFRS balance sheet at 1 January 2014 (the Company's date of transition) for the purposes of the transition to FRS 101 Adopted IFRSs

There are no reconciling differences between the opening FRS 101 IFRS balance sheet at 1 January 2014 for the purposes of the transition to FRS 101 Adopted IFRSs and the balance sheet as previously disclosed

The financial statements are prepared on the historical cost basis except that for investment properties on transition to FRS 101 the fair value was used as deemed cost for properties previously carried out at fair value Non current assets are stated at the lower of previous carrying amount and fair value less costs to sell

In these financial statements the Company has changed its accounting policies in respect of the adoption of the FRS 101 equivalent of IAS 19 (revised) Implementation of the standard had the following impact on the income statement

- Under FRS17 interest cost on the defined benefit obligation and an expected return on plan assets were recognised in profit separately Under the FRS 101 equivalent of IAS 19 (revised), these two amounts have been replaced by a single measure called net interest calculated on the net defined benefit liability This change affects the difference between actual and expected returns on plan assets which is recognised in full within OCI as part of remeasurements
- The reclassification of the administration costs of the defined benefit scheme, including the levy for the Pension Protection Fund from Finance expense to Administrative expenses within operating profit.

As a result of these amendments the comparative financial information in the income statement and OCI has been restated for the year ending 2014 The effect of the above on the disclosed profit or loss and the statement of changes in equity was to increase loss for the year by £3.8 million and reduce remeasurements of the net defined benefit liability in OCI by £3.8 million

As a result of the above, the tax expense in the income statement has decreased by £0.8 million and the deferred tax charge in OCI has increased by £0.8 million

### b) Estimation uncertainty

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as follows

- Note 9 – Defined benefit pension obligations The defined benefit pension obligations are calculated using a number of assumptions, including future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate The pension deficit has been calculated using the assumptions set out in note 22 of the Consolidated financial statements and
- Note 5 – Accruals The Company makes appropriate provision on a consistent basis for restructuring and other normal trading exposures with estimates being made regarding the timing of future payments

**1 Significant accounting policies (continued)**

**c) Going concern**

Details of the Director's assessment of the Company's ability to continue in operational existence for the foreseeable future are shown in note 1e) of the Consolidated financial statements and in the Directors report on page 48

**d) Investments**

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

**e) Own shares held by Employee Benefit Trust**

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

**2 Tangible and intangible fixed assets**

£million	Intangible assets	Freehold land and buildings	Plant, equipment and vehicles	Total tangible fixed assets
<b>Cost</b>				
At 1 January 2015	77	22	18	40
Transfers	06	–	(06)	(06)
Additions	23	–	–	–
<b>At 31 December 2015</b>	<b>106</b>	<b>22</b>	<b>12</b>	<b>34</b>
<b>Depreciation</b>				
At 1 January 2015	18	22	08	30
Charge for the year	17	–	02	02
Disposals	04	–	–	–
Impairment	05	–	–	–
<b>At 31 December 2015</b>	<b>44</b>	<b>22</b>	<b>10</b>	<b>32</b>
<b>Net book value</b>				
<b>At 31 December 2015</b>	<b>62</b>	<b>–</b>	<b>02</b>	<b>02</b>
At 31 December 2014	59	–	10	10

Included within intangible fixed assets are assets under construction with a carrying value of £0.9 million (2014: £0.8 million)

**3 Fixed asset investments**

£million	Subsidiary undertakings
<b>Cost</b>	
At 1 January 2015	87.4
Additions	64.7
Returned capital	(17.8)
<b>At 31 December 2015</b>	<b>134.3</b>
<b>Provisions</b>	
<b>At 1 January and 31 December 2015</b>	<b>37.8</b>
<b>Net book value</b>	
<b>At 31 December 2015</b>	<b>96.5</b>
At 31 December 2014	49.6

The Company's subsidiary undertakings and their locations are shown in note 13

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

During the year the company acquired Aero Stanrew Group Limited for £34.8 million in cash and the issue of 2,575,669 shares (with a fair value of £4.0 million). The Company also subscribed for 25,900,000 shares of £1 in its subsidiary TTG Investments Ltd for a total investment of £25.9 million

During the year the Company was part of a restructuring within TT Electronics Group. As part of this restructuring the Company's subsidiary Dale Electric International Ltd returned their capital invested by the Company. A gain of £8.1m was realised on the transactions as the gross consideration received was £25.9m and the carrying value of the investments was £17.8m

**4 Debtors**

£million	2015	2014
Amounts owed by subsidiary undertakings	134.3	146.1
Prepayments and accrued income	1.4	0.7
Income tax receivable	-	0.2
	<b>135.7</b>	<b>147.0</b>

Prepayments and accrued income includes £0.2m (2014: £0.1m) of receivables due after more than one year

**5 Creditors**

£million	2015	2014
<b>Amounts falling due within one year</b>		
Trade creditors	1.1	2.3
Amounts owed to subsidiary undertakings	45.7	6.4
Taxation and social security	0.2	0.2
Accruals and deferred income	5.3	2.5
Income tax payable	0.1	-
	<b>52.4</b>	<b>11.4</b>

**6 Share capital**

£million	2015	2014
<b>Issued, called up and fully paid</b>		
162,019,120 (2014: 159,008,330) ordinary shares of 25p each	40.5	39.8

The performance conditions for the Long Term Incentive Plan awards issued in 2012 were not met and, accordingly, no ordinary shares were issued during 2015 in connection with the Long Term Incentive Plan.

The Company issued 435,121 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.5 million, which resulted in an increase in share premium of £0.3 million.

On 18 December 2015 the Company issued 2,575,669 ordinary shares (nominal value £0.6 million) as part of the consideration for the acquisition of Aero Starnew Group Ltd which resulted in an increase in share premium of £3.4 million.

**7 Share-based payments**

Details of share based payments are shown in note 24 of the Consolidated financial statements.

**8 Loss for the year**

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its profit and loss account for the year. The loss after tax of the Company for the year was £0.4 million (2014: restated loss of £17.5 million). The auditor's remuneration for audit services is disclosed in note 6 to the Consolidated financial statements.

## **9 Pension schemes**

### **Defined benefit scheme**

The triennial valuation of the UK scheme as at April 2013 showed a deficit of £19.1m compared with £39.4 million at April 2010. It was agreed with the Trustee that the existing recovery plan is sufficient to address the deficit, namely contributions of £4.5 million to be paid in respect of 2016, £4.3 million was paid during the year, £3.2 million in respect of 2015 and £1.1 million in respect of 2014, a further £1.1 million was paid early in 2016 in respect of 2015. In addition, the Company has set aside £3.0 million to be utilised in agreement with the Trustee for reducing the long term liabilities of the scheme. Further details of the scheme are provided in note 22 to the Group financial statements.

### **Defined contribution scheme**

The Company operates a Group personal pension plan for employees and pays contributions to administered pension insurance plans. The Company has no further payment obligation once the contributions have been paid. Payments to the defined contribution scheme are charged as an expense as they are incurred. The total contributions charged by the Company including employee salary exchange contributions in respect of the year ended 31 December 2015 were £0.5 million (2014: £0.6 million).

## **10 Deferred tax**

The deferred tax asset of £3.6 million (2014: £2.1 million) is made up of an asset of £3.3 million (2014: £2.1 million) in respect of the pension liability, the movement in which has been recognised in profit (£0.7 million charge) and equity (£1.9 million credit), and an asset of £0.3 million (2014: £nil) in respect of share based payments, the movement in which has been recognised in profit (£0.2 million) and equity (£0.1 million).

At 31 December 2015, the Company had recognised no deferred tax assets on gross tax losses of £23.2 million (2014: £23.2 million) and gross property, plant and equipment timing differences of £3.3 million (2014: £2.6 million).

## **11 Commitments under operating leases**

Annual commitments under non-cancellable operating leases were £0.1 million, expiring in one year (2014: £0.1 million, expiring between two and five years).

## **12 Related party transactions**

During 2015 and 2014, the Company did not have any related party transactions other than with wholly owned subsidiaries.

**13 Subsidiary undertakings**

The following entities are 100% owned with only ordinary shares in issue unless otherwise stated

Name of Subsidiary Undertaking	Country of Incorporation
AB Mikroelektronik GmbH	Austria
TT Electronics Ltd	Barbados
AB Electronics (Suzhou) Co Ltd	China
AB Elektronik Sensors (Suzhou) Co Ltd	China
TT Electronics Integrated Manufacturing Services (Suzhou) Co , Ltd	China
TT Electronics SAS	France
AB Elektronik GmbH	Germany
AB Elektronik Sachsen GmbH	Germany
Midland Electronics Deutschland GmbH	Germany
TT Electronics GmbH	Germany
TT Electronics Holdings GmbH	Germany
TT Electronics China Limited (99% owned) <sup>(1)</sup>	Hong Kong
TT Electronics Sensing and Control India Private Limited	India
TT Electronics Srl	Italy
TT Electronics Japan Limited (in liquidation)	Japan
BI Technologies Corporation SDN BHD (ordinary and preference shares)	Malaysia
AB Electronic Manufacturing Mexico S.A de CV	Mexico
BI Technologies S.A de CV	Mexico
Optron De Mexico S.A. de CV	Mexico
TT Electronics Integrated Manufacturing Services SRL	Romania
TT Electronics Sensing and Control SRL	Romania
TT Electronics Asia Pte Ltd	Singapore
Aero Stanrew SARL (99.6% owned)	Tunisia
AB Elektronik Ukraine	Ukraine
AB Automotive Electronics Limited	United Kingdom
AB Connectors Limited	United Kingdom
AB Electronic Components Limited	United Kingdom
AB Electronic Products Group Limited <sup>(1)</sup>	United Kingdom
AB Electronics Limited (in liquidation)	United Kingdom
AB Elektronik Holdco Limited	United Kingdom
ABtest Limited	United Kingdom
Aero Stanrew Group Limited (ordinary and preference shares) <sup>(1)</sup>	United Kingdom
Aero Stanrew Limited	United Kingdom
Automotive Electronic Systems Limited <sup>(1)</sup>	United Kingdom
BI Technologies Limited	United Kingdom
Cable Realisations Limited (in liquidation)	United Kingdom
Commendshaw Limited	United Kingdom
Controls Direct Limited	United Kingdom
Crystalate Electronics Limited	United Kingdom
Crystalate Holdings Limited (in liquidation) <sup>(1)</sup>	United Kingdom
Dale Electric International Limited <sup>(1)</sup>	United Kingdom
Deltight International Limited (in liquidation) <sup>(1)</sup>	United Kingdom
Deltight Washers Limited	United Kingdom
E M E Limited (in liquidation)	United Kingdom
Linton and Hirst Group Limited	United Kingdom
Magnetic Materials Holdings Limited (in liquidation)	United Kingdom
Midland Electronics Limited	United Kingdom
MMG Linton and Hirst Limited	United Kingdom
New Chapel Electronics Limited	United Kingdom



## Financial Statements / Five-year record

£million (unless otherwise stated)	2015	2014	2013 <sup>(1)</sup>	2012	2011
Revenue	<b>509.9</b>	524.3	532.2	476.9	509.6
Operating profit <sup>(2)</sup>	<b>21.7</b>	29.2	30.8	28.7	28.7
Profit before taxation <sup>(2)</sup>	<b>19.2</b>	27.6	30.1	25.3	24.5
Earnings/(loss) <sup>(2)</sup>	<b>14.0</b>	20.5	23.0	18.6	17.6
Earnings/(loss) per share (p) <sup>(2)</sup>	<b>8.8</b>	12.9	14.6	11.9	11.4
Dividends – paid and proposed	<b>8.9</b>	8.7	8.5	7.8	6.8
Dividend per share – paid and proposed (p)	<b>5.5</b>	5.5	5.4	5.0	4.4
Average number of shares in issue	<b>159.2</b>	158.3	157.6	156.1	154.9
Net cash/(debt)	<b>(56.1)</b>	(14.3)	26.9	46.7	15.2
Total equity	<b>187.4</b>	187.8	203.3	191.1	191.4

### Notes

<sup>(1)</sup> Results for 2013 have been represented to exclude acquisition related items from underlying profit.

<sup>(2)</sup> Operating profit, profit before taxation, earnings and earnings per share exclude the impact of restructuring costs, asset impairments and acquisition related costs.

## Additional Information / Glossary

### **Organic revenue growth**

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

### **Cash conversion**

Definition Cash conversion is defined as cash generated from continuing operations after capital and development expenditure, expressed as a percentage of underlying operating profit. Cash conversion measures how effectively we convert profit into cash and tracks the management of our working capital and capital expenditure.

### **Earnings per share (EPS)**

Definition EPS is calculated as profit before exceptional items from continuing operations attributable to shareholders, divided by the weighted average number of shares in issue during the year. We have chosen EPS as a KPI as it is a standard metric to determine corporate profitability for shareholders. In addition, it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan – see further details on page 65.

### **Employee engagement**

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

### **Return on invested capital**

Definition Return on Invested Capital is defined as underlying operating profit for the year divided by average invested capital for the year. Average invested capital excludes provisions, tax balances and financial assets and liabilities, including cash and borrowings. This measures how efficiently assets are utilised to generate returns with the target of exceeding the cost to hold the assets.

### **Safety performance**

Definition Safety performance is defined as the number of occupational injuries resulting in three or more days absence per 1,000 employees. This KPI allows us to compare our performance with that of our peers. We use a UK benchmark published by the Health and Safety Executive and apply this to all of our facilities worldwide, reflecting our commitment to raising standards globally.

### **R&D spend**

Definition R&D is defined as the income statement charge for research and development activities expressed as a percentage of revenue. The charge is after accounting for R&D costs capitalised and amortised in the year.

<b>Other terms</b>			
Ad Blue®	A water/urea based additive	IFRIC	International Financial Reporting Independence Committee
AGM	Annual General Meeting	IFRS	International Financial Reporting Standards
BE TT	Build Expertise in TT	IMS	Integrated Manufacturing Services
Board of Directors	The Board of Directors of TT Electronics plc	ITAR	International Traffic in Arms Regulations
CAD	Computer Aided Design	KPI	Key Performance Indicator
CAGR	Compound Annual Growth Rate	LIBOR	London Interbank Official Rate
CEO	Chief Executive Officer	LLP	Limited liability partnership
CFO	Chief Financial Officer	LTIP	Long Term Incentive Plan
CGU	Cash Generating Unit	M&A	Mergers and Acquisitions
CSR	Corporate and Social Responsibility	Nadcap	National Aerospace and Defense Contractors Accreditation Program
DEFRA	Department for Environment Food and Rural Affairs	NBS	New Bridge Street
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation	NOx	Nitrous oxide
EBT	Employee Benefit Trust	OEM	Original Equipment Manufacturer
EICC	Electronics Industry Citizenship Coalition	OIP	Operational Improvement Plan
EMB	Executive Management Board	PMI	Purchasing Managers Index
EMS	Electronic Manufacturing Services	R&D	Research and Development
EPS	Earnings Per Share or Electronic Power Steering (as the context requires)	Roxspur	Roxspur Measurement and Control Limited
EU	European Union	RSP	Restricted Share Plan
EVP	Executive Vice President	STEM	Science, Technology, Energy and Mathematics
FRS	Financial Reporting Standards	the Board	The Board of Directors of TT Electronics plc
GAAP	Generally Accepted Accounting Principles	the Code	UK Corporate Governance Code
GBP	Pounds Sterling (£)	the Company	TT Electronics plc
GDP	Gross Domestic Product	TSR	Total Shareholder Return
HMRC	HM Revenue and Customs	TT	TT Electronics plc
IAS	International Accounting Standards	UK	United Kingdom of Great Britain and Northern Ireland
IASB	International Accounting Standards Board	USA	United States of America

## Additional Information / Shareholder information

### Annual General Meeting

The Annual General Meeting will be held on 11 May 2016 at 11.30am at The City Centre (formerly City Marketing Suite) 80 Basinghall Street, London EC2V 5AR

### Results

Announcement of 2016 half year results – late August 2016

Preliminary announcement of 2016 results – mid March 2017

Annual Report 2016 – to be posted mid April 2017

### Dividends

For the year ending 31 December 2015 the Board has recommended a final dividend of 3.8p per share which will be paid on 2 June 2016 to shareholders on the register on 20 May 2016 (2014 3.8p). An interim dividend of 1.7p per share was paid on 29 October 2015 (2014 1.7p).

### Multiple accounts on the shareholder register

If you have received two or more copies of this document, this means that there is more than one account in your name on the shareholder register. This may be caused by either your name or address appearing on each account in a slightly different way. For security reasons the Registrars will not amalgamate the accounts without your written consent.

If you would like any multiple accounts combined into one account please write to Equiniti Limited at the address given below.

### Share dealing services

Shareview Dealing is a telephone and internet service provided by Equiniti. It offers a simple and convenient way of buying and selling TT Electronics plc shares.

Log on to [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing) or call 0845 603 7037 between 8.00 am and 4.30 pm, Monday to Friday (except bank holidays) for more information about this service and for details of the rates and charges. Please note that telephone lines remain open until 6.00 pm for enquiries.

A weekly postal dealing service is also available and a form together with terms and conditions can be obtained by calling 0371 384 2248\*. Commission is 1.75 per cent with a minimum charge of £55.

### ShareGift

ShareGift is a charity share donation scheme for shareholders, administered by The Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomical to sell on a commission basis. Further information can be obtained at [www.sharegift.org](http://www.sharegift.org) or from Equiniti.

### Shareholder enquiries

Equiniti maintain the register of members of the Company. If you have any queries concerning your shareholding or if any of your details change please contact the Registrars.

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

Telephone 0371 384 2396\* (or +44 121 415 7047 if calling from outside the United Kingdom)  
Fax 0371 384 2100\*

Textphone for shareholders with hearing difficulties  
0371 384 2255\*

Equiniti also offer a range of shareholder information on line at [www.shareview.co.uk](http://www.shareview.co.uk)

\*UK calls to 0871 numbers cost 8p per minute plus network extras. Lines are open from 8.30 am to 5.30 pm, Monday to Friday (except bank holidays).

### Website

Information on the Group's financial performance activities and share price is available at [www.ttelectronics.com](http://www.ttelectronics.com)

## Additional Information / Notes