

TT ELECTRONICS PLC

COMPANY NUMBER: 87249

**ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2018**





Engineering the future

TT Electronics plc
Annual report and Accounts 2018

Cleaner

Smarter



Our people deliver our leading
electronic engineering
expertise. They are the
foundation of TT.

See our year in review




See our Annual report online at
www.ttelectronics.com/investors



1 star

Great place to work
(benchmark from Best
Companies Ltd)

TT has been benchmarked as a 1 star great place to work. For the second year in succession, employee engagement is above 80% for our annual employee survey and our engagement score improved again. We listen to our employees who work together to make TT a great place to work.

 See page 25 for more information

£12.6m

Cash spent on R&D


We have increased our cash spend on R&D by 37%. Our engineering time and resources are targeted to enhance our capabilities in markets with structural growth drivers, driven by our strategic customer relationships.

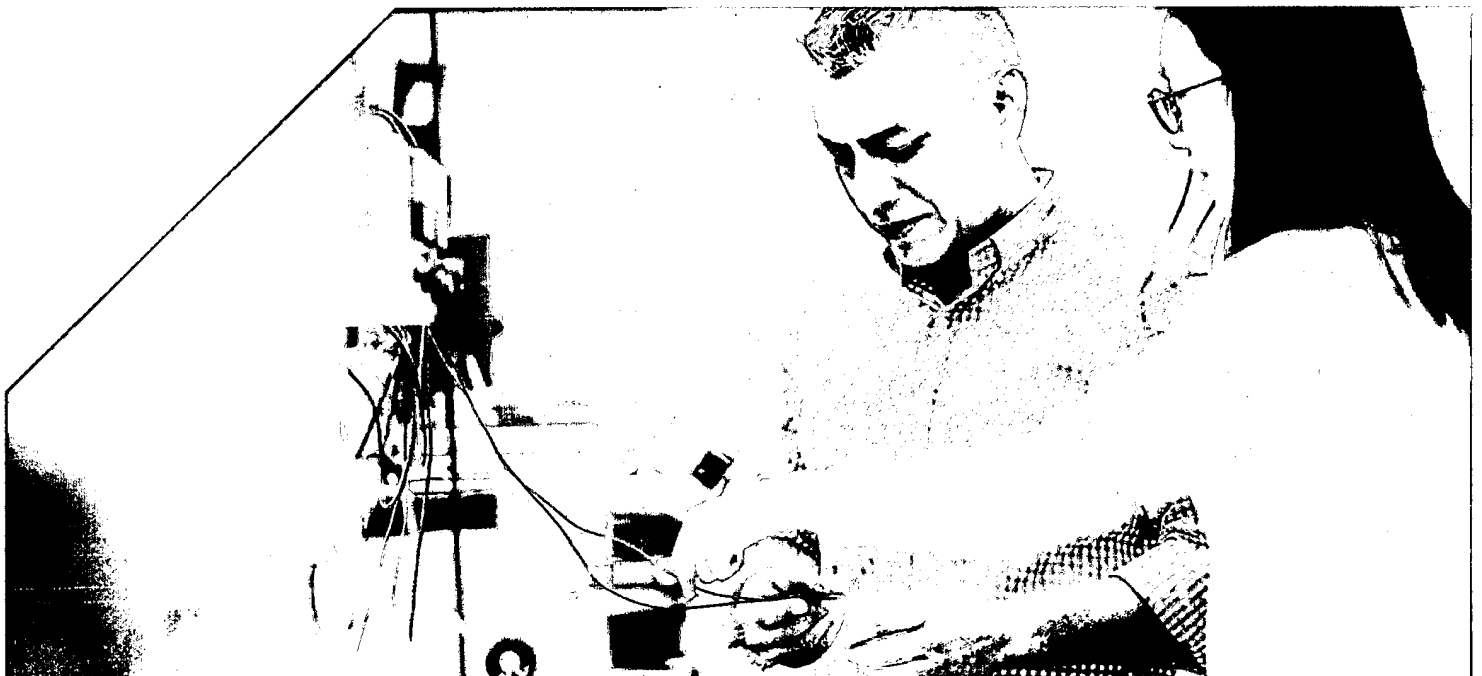
 See pages 10–11 for more information

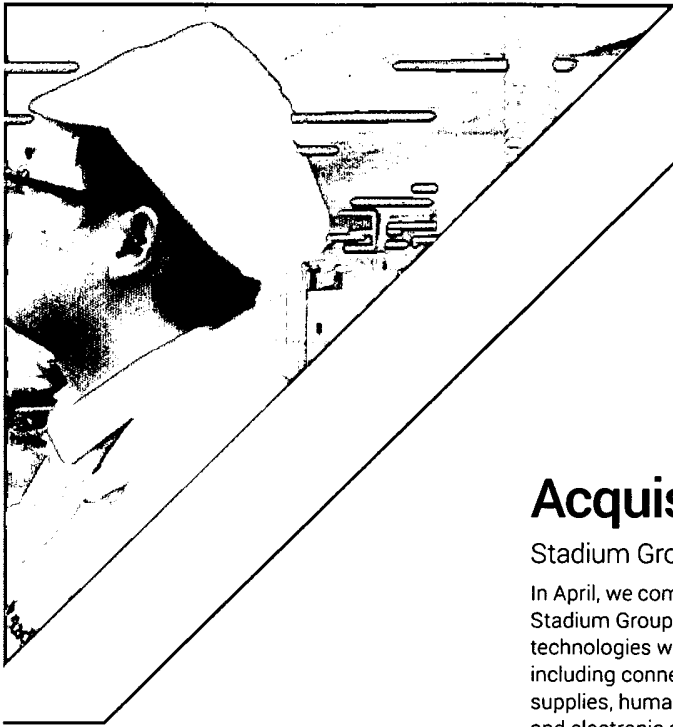
28

New customised solutions
launched in optoelectronic sensors


We have restructured our engineering function to create dedicated teams focused on quick-turn customisation. We provide customised solutions from core platform technology, helping our customers get their applications to market quickly.

 See pages 28–29 for more information






Our year in review

 Read more about what we did in 2018 on our website www.ttelectronics.com

Joint Venture

UniRoyal Electronics

In November we announced a joint venture with UniRoyal Electronics for sensing and power management devices.

 See page 6 for more information


Acquisitions

Stadium Group

In April, we completed the acquisition of Stadium Group, a supplier of design-led technologies with product capabilities including connectivity solutions, power supplies, human machine interface and electronic assemblies.

Precision Inc.

In June, we acquired Precision Inc, a US based designer and manufacturer of precision electromagnetic product solutions primarily for medical markets.

 See pages 6–9 for more information


14

New customers won in Global Manufacturing Solutions, more than double in 2017

10%

Growth in key aerospace and defence strategic accounts in Power and Connectivity

Our key strategic accounts are customers we have identified that have strong growth potential. The growth in these accounts reflects the success of our strategic business development priority.

 See pages 30–31 for more information



Headline performance

Revenue	Underlying operating profit ²
£429.5m	£33.4m
2017: £361.1m ¹	2017: £24.3m
+6% ²	+42% ³

Underlying EPS ⁴	Operating profit
16.2p	£16.5m
2017: 10.9p	2017: £20.0m
+54% ³	(14)% ³

EPS	Free cash flow ⁵
8.0p	£8.5m
2017: 9.7p	2017: £4.7m
(13)% ³	+81%

Net (debt)/funds	Cash conversion
£(41.7)m	88%
2017: £47.0m	2017: 98%
(189)%	

Dividend ⁶	Operating cash flow
6.5p	£25.1m
2017: 5.8p	2017: £29.3m
+12%	(14)%

Strategic highlights

- Delivered strong organic and acquisitive growth in revenue and profitability
- Substantial number of new customer and contract wins
- R&D investment up 37% to £12.6m (5.1% of revenue, up from 4.6%)
- Margin growth driven by self-help and operational leverage
- Creating value through our disciplined M&A strategy; Precision performing well and Stadium performing ahead of expectations



Read more in our CEO review on pages 6–9

Financial headlines

- 6% full year organic revenue growth; 9% organic growth in H2
- Underlying operating profit and PBT both materially increased
- Underlying operating margins up by 120 basis points to 7.8%
- Good underlying cash conversion at 88%
- Full year dividend up 12% to 6.5p

1. Re-stated for IFRS15.
2. Organic growth at constant currency calculated by comparing current year actual results to the prior year results retranslated at current year actual exchange rates.
3. Growth at constant currency calculated by comparing current year actual results to the prior year results retranslated at current year actual exchange rates.
4. Underlying change before restructuring costs and acquisition costs. Growth at constant currency calculated by comparing current year actual results to the prior year results retranslated at current year actual exchange rates.
5. Net cash flow from operating activities less net cash flow from investing activities less interest paid. See note 8 for further information.
6. Interim dividend combined with final proposed dividend.

Strategic report

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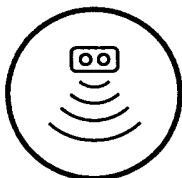
* Inside front cover.

TT in focus

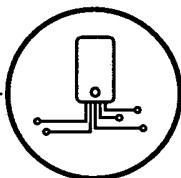
We are well-positioned to serve our customers

TT Electronics is a global provider of engineered electronics for performance-critical applications. We have years of engineering expertise, providing electronics for applications in the harshest of environments. Our global footprint gives us access to our key markets and enables us to serve our customers effectively and efficiently.

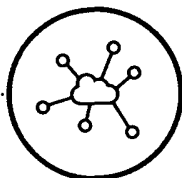
Our capabilities



Sensing



Power



Connectivity

Underpinned by a
global manufacturing footprint

We design and manufacture electronics that sense, manage power and connect to other devices; our solutions are often mission-critical, operating in harsh environments. We help solve our customers' toughest electronic challenges. We:

- help reduce the environmental impact of aircraft;
- contribute to the creation of the medical surgical technology for removing cancer cells;
- improve the accuracy of robotic arm movements in the automated industrial factories of the world;
- support the efficiency of batteries in electric and hybrid electric vehicles; and
- we provide solutions for the drive towards "electronics everywhere" across our markets.



Our markets

Industrial

pages 16–17

- Automation and control
- Energy and smart devices
- Infrastructure

48%
revenue

Medical

pages 18–19

- Advanced surgical devices
- Imaging and direct patient care
- Laboratory automation and diagnostics

21%
revenue

Aerospace and defence

pages 20–21

- Commercial and military aircraft
- Space and satellite
- Defence systems and vehicles


19%
revenue

Transportation

pages 22–23

- Electric and hybrid electric vehicles
- Rail infrastructure and equipment

12%
revenue

 See more on our markets on pages 14–23

Our divisions

Sensors and Specialist Components

pages 28–29

The Sensors and Specialist Components division works with customers to develop standard and customised solutions including sensors and power management devices. Our solutions improve the precision, speed and reliability of critical aspects of our customers' applications.

35%
Revenue

Power and Connectivity

pages 30–31

The Power and Connectivity division designs and manufactures power application products and connectivity devices which enable the capture and wireless transfer of data. We collaborate with our customers to develop innovative solutions to optimise their electronic systems.


23%
Revenue

Global Manufacturing Solutions

pages 32–33


The Global Manufacturing Solutions division provides manufacturing services and engineering solutions for our product divisions and to customers that often require a lower volume and higher mix of different products. We manufacture complex integrated product assemblies for our customers and provide engineering services including designing testing solutions and value-engineering.

42%
Revenue

 See more on our divisions on pages 26–33

Our strategy

1. Position ourselves in structural growth markets
2. Create differentiated capabilities
3. Work with our customers to solve their toughest electronic challenges

 See our business model on pages 12–13

We advance our strategy through our four strategic priorities:



Strategic business development



R&D and value-added product solutions



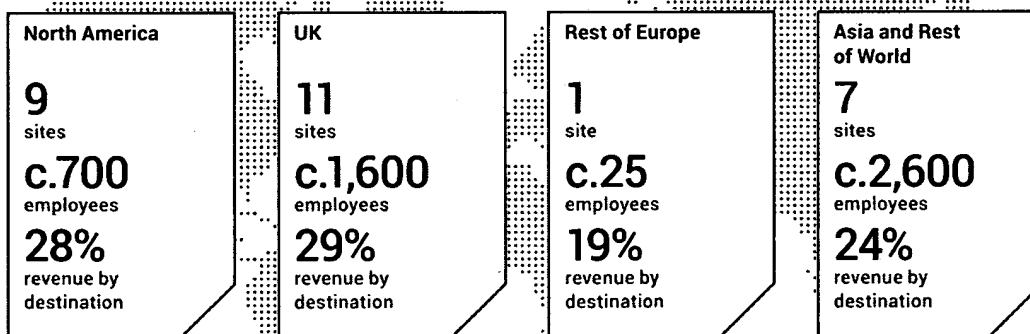
Operational excellence



Value-enhancing acquisitions

Our global reach

28 key locations



Strong delivery while investing for the future



We continue to deliver against all our financial metrics. With the two acquisitions we made during the year we have broadened our portfolio, extended our technical capability, and gained further penetration into markets where the proliferation of electronics is driving demand for our products."

Neil Carson
Chairman

2018 was an excellent year for TT. We delivered a strong organic performance that has been bolstered by two strategic acquisitions which are providing good opportunities for growth.

Strategic development

We have delivered an excellent financial performance with strong growth and significant margin progression alongside another good year of cash conversion. We have continued to invest in the future of the Group. During the year, we acquired Stadium (April 2018) and Precision (June 2018), further progressing our strategy to build leading positions in markets with structural growth drivers where there is increasing electronic content. Stadium has been successfully integrated into the TT Group, and both acquisitions are providing good opportunities for growth.

By focusing on areas of the market where our industry expertise and focused R&D investment is creating differentiated capabilities, we are helping our customers solve their most complex challenges. Please see pages 14 to 23 for further information on market trends driving demand for our products. Additional investment during 2018 in business development, R&D and our operations has helped strengthen the Group and position us well to unlock opportunities for future growth. You can see how the progress against our strategic priorities has been reflected in the performance of the Group

on pages 10 to 11. The Board believes that by continuing our strategic focus on enhancing our business development capabilities, developing new and customised products, and improving our operations, we are setting the business up to fulfil its potential.

Our people

Our achievements in 2018 are a result of the hard work and dedication of our employees across our global operations. Our achievements were bolstered by the acquisitions of Stadium and Precision and we have been delighted to welcome our new employees to the TT family.

During the year, I enjoyed visiting our sites in Suzhou and Dongguan, China, and relished the opportunity to see first-hand the enthusiasm and passion our employees have for what we do and how best to serve our customers. Spending time with our employees gives me great confidence in the prospects of the business. On behalf of the Board, I would like to thank all our employees who have contributed to another successful year in 2018.



Shareholder returns and dividend

We continue to deliver against all our financial metrics. With the two acquisitions we made during the year we have broadened our portfolio, extended our technical capability, and gained further penetration into markets where the proliferation of electronics is driving demand for our products.

Given TT's strong organic performance, the successful integration of the acquisitions, and the prospects for the business, the Board is proposing a final dividend of 4.55 pence per share. This, when combined with the interim dividend of 1.95 pence per share, gives an increased total dividend of 6.50 pence per share for the full year (2017: 5.8 pence per share), an increase of 12 per cent.

Looking forward

TT is a better-balanced business and we are well placed to navigate uncertain macroeconomic conditions. We have identified our strengths and invested our resources in our core areas of sensing, power and connectivity where we have differentiated capabilities. The Board believes we are on track to make further progress in 2019 and beyond.

Neil Carson
Chairman
5 March 2019

Investment proposition

We have positioned TT for organic growth ahead of the market with opportunity to progress our operating margin. By prioritising strong cash performance, including targeting 80%+ cash conversion, we are able to continue to invest in R&D to support growth while improving ROIC and maintaining a progressive dividend policy. We will continue to support our strategy with targeted, complementary acquisitions where we have a track record of successful integration.

Organic growth ahead of the market

+6%

R&D investment to support growth

+37% to £12.6m

Operating margin progression

up 120bps to 7.8%

Cash conversion of 80%+

88%

Improving ROIC

up 90bps to 11.5%

Targeted, complementary acquisitions

**2 acquisitions
in 2018**

Progressive dividend policy

+12% to 6.5p

Excellent progress... fit for the future



2018 was an excellent year for TT. Our strong growth and significant margin progression reflect the higher quality business TT is becoming."

Richard Tyson
Chief Executive Officer



Strategic highlights

- Delivered strong organic and acquisitive growth in revenue and profitability
- Substantial number of new customer and contract wins
- R&D investment up 37% to £12.6m (5.1% of revenue, up from 4.6%)
- Margin growth driven by self-help and operational leverage
- Creating value through our disciplined M&A strategy; Precision performing well and Stadium performing ahead of expectations

2018 was another busy and successful year for TT. We delivered strong organic growth and excellent profit progression.

Our underlying operating profit margin is now 7.8 per cent, up from 4.3 per cent three years ago. We enhanced our capabilities and market access with the acquisition of two businesses; Stadium (April 2018) and Precision (July 2018). We ended the year signing a joint venture agreement with our long-term partner UniRoyal Electronics ("UniRoyal").

UniRoyal is a large Chinese manufacturer of sensing and power management devices. The joint venture will enhance future growth opportunities by giving access to higher volume market segments than TT currently addresses.

During the year we continued to invest in our strategic priorities, increasing our spend on business development capabilities, R&D and value-added product solutions, and operational excellence.

Strong organic growth and margin progression

2018 was a year of strong organic growth, excellent profit progression, further margin improvement and continued good cash conversion. The acquisitions of Stadium and Precision enhanced overall revenue growth and margin improvement. Group revenue for 2018 was £429.5 million (2017: £361.1 million) an increase of 6 per cent organically. Acquisitions contributed revenue of £53.2 million (including Cletronics). There was a £5.9 million adverse impact from foreign exchange. New customer wins and additional business from existing customers have contributed to growth this year. We saw good growth with customers across all geographies, with customers from Asia now representing over £100 million of our sales. The Group's order book has improved significantly compared to the same time last year with strength in all divisions.

Underlying operating profit¹ increased by 42 per cent at constant currency to £33.4 million (2017: £24.3 million). The acquisitions of Stadium (April 2018) and Precision (June 2018) contributed £5.4 million. Statutory operating profit was £16.5 million (2017: £20.0 million) down 18 per cent due to increased exceptional costs relating to the acquisition of Stadium and Precision and the impact of Guaranteed Minimum Pension ("GMP") equalisation. Statutory profit before tax was £14.6 million (2017: £17.7 million).

The organic improvement was primarily driven by the Sensors and Specialist Components and Global Manufacturing Solutions divisions with Power and Connectivity delivering good growth in the second half of the year. The acquisitions performed well, with Stadium performing ahead of expectations. The integration of Stadium is now complete, ahead of plan, and the integration of Precision is progressing well. Underlying operating profit margin for the Group has improved by 120 basis points at constant currency to 7.8 per cent (2017: 6.7 per cent) and return on invested capital increased by 90 basis points to 11.5 per cent (2017: 10.6 per cent). We delivered another year of good cash conversion of 88 per cent (2017: 98 per cent) and a free cash inflow of £8.5 million (2017: £4.7 million).


Good financial performance across our divisions

All three divisions contributed to the Group's strong financial performance, with excellent organic growth, particularly in the second half of the year.

1. Please see note 8 on page 113 for details on alternative performance measures.

Sensors and Specialist Components revenues were £149.8 million (2017: £142.3 million) an increase of 5 per cent and 8 per cent on an organic basis (excluding a £3.6 million adverse foreign exchange impact). Revenue growth was a result of increased volumes, particularly in our optical sensing and power management product lines.


Underlying operating profit improved to £21.3 million (2017: £18.8 million), an increase of 16 per cent at constant currency excluding a £0.4 million adverse foreign exchange impact. The profitability of the division improved as a result of operational leverage on the organic revenue growth and improvements in pricing. Underlying operating profit margin was 14.2 per cent, up 90 basis points at constant currency.

 Read more about this on pages 28–29

Power and Connectivity revenues were £97.9 million (2017: £64.5 million), including a £36.4 million contribution from the acquisitions of Stadium (April 2018) and Precision (June 2018). Organic revenues were down 4 per cent,

as expected, due to the absence of the high margin one-off sales relating to the last time buy activity from a site closure in the US. In the second half, revenues grew 4 per cent organically.

Underlying operating profit was £8.4 million (2017: £6.2 million), including £4.6 million profit from the acquisitions. The acquisitions contributed an underlying operating profit margin of 12.6 per cent. Profitability was impacted by the absence of high-margin last time buy sales as expected. The first half investment in capacity and efficiency improvements delivered the expected margin improvements in the second half.

 Read more about this on pages 30–31

Global Manufacturing Solutions revenues were £181.8 million (2017: £154.3 million), up by 8 per cent organically. The acquisition of Stadium contributed £16.6 million to revenue in the division. Revenue growth was driven by the continued strength of our offering to Chinese and Asian customers. We have also seen good growth again with our medical customers.



Stadium is a leading provider of design-led connectivity solutions across industrial, transportation, medical and aerospace and defence markets. Stadium contributed revenue of £42.8 million in just over eight months of ownership and underlying operating profit of £4.3 million resulting in an operating profit margin of 10.0 per cent.


The integration has progressed well and is now complete. As part of the integration, we have invested in engineering, business development, and talent to strengthen our business. We have established a new advanced technology centre in Shenzhen, China, for custom engineering for connectivity solutions to help unlock opportunity from the market growth being driven by industrial Internet of Things

("IoT") solutions. Synergies have been realised during the year, including savings associated with the removal of plc cost duplication and the consolidation of sales networks in North America. Procurement supply chain savings have been identified and TT's supply chain team are now directly supporting Stadium's operations.

We are confident of delivering the full synergy plan early, with incremental benefit from additional opportunities identified from consolidating our operational capabilities now underway. We are preparing one of our North America facilities to deliver products to Stadium's North American customer base and have introduced Stadium to TT's distribution partners.

Excellent progress... fit for the future continued

Underlying operating profit increased from £6.5 million in 2017 to £11.3 million in 2018. There was a £0.8 million contribution from acquisitions and an adverse foreign exchange movement of £0.1 million. Underlying operating profit improved as a result of operational improvement, operational leverage on increased revenues. Underlying operating margins increased to 6.2 per cent at the top end of our benchmark range (2017: 4.2 per cent).

 Read more about this on pages 32–33

Investing for growth Our strategy

TT is a global provider of engineered electronics for performance critical applications. Electronics are everywhere, representing a structural trend in our global markets. In industrial markets automation and robotics have become commonplace; in medical markets technology is taking medical surgery to a new level; in aerospace and defence, new aircraft platforms are launching with electronics at the heart of driving fuel efficiency; and in transportation, rail infrastructure is turning to electronics to


provide preventative maintenance. TT provides solutions to address our customers' challenges in all four of these markets. Our technology and products are used everywhere in a huge range of applications from building security to medical scanners and the latest generation fighter jets.

We design and manufacture electronics that sense, manage power and connect to other things; our solutions are often mission-critical, operating in harsh environments. Our sensing capabilities enable the capture of data to inform decisions and support data analytics and artificial intelligence. Our power electronics support the efficient use of power and the protection of circuits from the risk of variation in power. Our connectivity solutions allow our customers to share data and bring together systems to optimise insight, efficiency and performance of entire electronic systems.

We have focused our resources and investments where we see that our capability aligns with the greatest market


opportunity, and where we have decades of industry expertise and strong customer relationships to collaborate in areas that are valued by our customers. We are creating strong and differentiated capabilities and we are committed to solving our customers' toughest electronics challenges by engineering smarter solutions together.

Our strategy is designed to grow TT and drive value creation for shareholders by investing in complementary and targeted acquisitions while focusing on our business development, R&D and operational capabilities.

 See pages 12 to 13 for more on our strategy and business model

Value-enhancing acquisitions

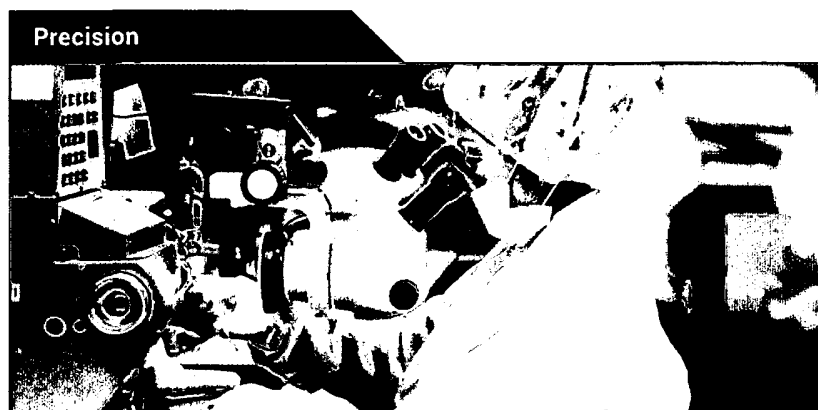
During the year we acquired Stadium (April 2018) and Precision (June 2018). The acquisitions have enhanced our capabilities and market access and are performing very well.

 See case studies on page 7 and 8 for more information

Business development

Our increased customer focus has resulted in new customer wins and increased sales to existing customers. Supporting our business development function as we evolve is crucial to our success, ensuring our sales organisation is fit for purpose as we build strategic relationships with our customers and bring more new products and solutions to market.


During the year, we continued our investment in our business development capabilities, training all our customer facing employees and providing new tools for them. Our success is reflected in the number of new contracts with existing customers and new customers won during the year. We have identified key accounts across the Group which we are using our new business development approach to develop into strategic partnerships and identify future revenue potential. Our aerospace and defence key accounts grew by 10 per cent in Power and Connectivity. We have a sales council which focuses on unlocking cross-divisional opportunities. During the year we won a multi-year contract with a US aerospace systems company following collaboration between



Precision is an industry-leading designer and manufacturer of precision electromagnetic product solutions for critical applications, primarily in medical markets. Precision contributed £10.2 million of revenue in seven months of ownership. Underlying operating profit was £1.1 million, with an underlying operating profit margin of 10.8 per cent. The acquisition extends our capabilities by adding new design, simulation and manufacturing capabilities including ultra-fine wire winding. Precision provides

an enhanced presence for us in the US, with close proximity to a hub of medical customers in Minneapolis. The technical capabilities in Precision have highlighted new opportunities to expand into aerospace and defence markets using TT's domain expertise in this sector. The integration is proceeding to plan, and we are moving forward with the optimisation of our electromagnetics operations. We anticipate the integration and associated costs to be c.£3 million.


our Power and Connectivity and Global Manufacturing Solutions divisions. We have been focused on shifting our customer mix, winning and developing customer relationships with those customers that are the "right fit" for TT, with long term growth potential. We secured 14 new customers in Global Manufacturing Solutions, double the amount won in 2017.

 Read more about this on pages 10–11

R&D and value-added product solutions and R&D

As we develop strategic partnerships this assists us to target our R&D investment at the right products and solutions to generate future revenue. We are increasingly able to support our customers with their new product introductions, allowing more targeted investment for our increased R&D investment. During the year, we spent £12.6 million on R&D, up 37 per cent. Being closer to our customers allow us to target investment in the areas our customers value.


During the year we launched five new sensing and power management devices. In addition to new platform product launches, we have also focused on the rapid provision of custom solutions to our customers. In our sensors business, we launched a quick response programme resulting in 28 new orders of customisations for our optoelectronic sensor platforms, helping our customers get their products to market rapidly.

 Read more about this on pages 10–11

Operational excellence

We strive to deliver operational excellence at each of our sites and want our customers to recognise TT for outstanding service. This year we deployed resources in the sites where our operational performance has been below TT benchmark levels. Our self-help actions have led to improvement in profitability and margin. In the Global Manufacturing Solutions division, our UK business has achieved significant improvements during the year. As a result of increased customer confidence, the UK business won six new contracts during the year compared to one in 2017. We see more opportunity to improve our operational performance.

Our safety performance during the year was disappointing, with 17 more than three days lost time accidents during the year. Having seen a period of significant improvement prior to 2018, we have analysed issues, shared experiences, and are in the process of re-doubling our efforts, focusing on near misses, preventative measures and behaviour-based safety training. Our leadership team continues to prioritise health and safety, and we held a safety day during the year to drive cohesion and awareness across all sites. Our goal of zero harm remains the same and we will work towards improving site safety during 2019. We have appointed a new Vice President of Health and Safety to continue to engage our employees and support our improvement efforts.

 Read more about this on pages 10–11

Employee engagement driving our success


Underpinning all of this and fundamental to the success of our business is the engagement of our employees and we are committed to making TT a great place to work. We focus our efforts on putting engagement at the heart of the TT strategy and we have achieved another year of improved engagement. In our annual employee survey, TT has been benchmarked as a 1* great place to work (benchmark from Best Companies Ltd). We have invested in improving our organisational capabilities, hiring top talent to ensure we fulfil our potential. We are also conscious of the diversity position across our employee base. During the year we strengthened our leadership team, welcoming Sarah Hamilton-Hanna, EVP HR and Neil Fleming, EVP Corporate Development to our Executive Management Board.

We continue to develop the diversity of our senior leadership team through our internal development plans, our recruitment processes, and by encouraging new talent to join the sector.

We pay our employees equally for equal roles, and employ a workforce that comprises 52 per cent female employees and 48 per cent male employees. The gender diversity of

our senior leadership is reflective of the industry and we are looking to proactively improve our diversity at this level in the organisation through our internal development plans, our recruitment processes, and encouraging new talent to join the industry.

We remain committed to promoting apprentice schemes throughout the organisation, championing young talent and nurturing our leading experts of the future. Our progress is demonstrated by our employee engagement score of 4.82, up from 4.73 in 2017.

 Read more about this on pages 24–25

Outlook

2018 was an excellent year for TT, with a strong performance on all key metrics. We are particularly pleased with the significant organic growth and margin progression in these results. Our focus on growing aerospace and defence, medical and industrial markets, alongside the disposal of our Transportation division in 2017 has transformed our business. The acquisitions of Stadium and Precision have enhanced our capabilities and market access and are performing very well.





The growing trend for "electronics everywhere" is an important structural driver for us, creating increasing demand for our products and solutions. By focusing on sensing, power and connectivity in areas where we have real differentiation, we are continuing to make TT a higher margin, higher quality business. Our balance sheet gives us the flexibility to continue to invest in the growth of the business. We enter 2019 with a better-balanced business, a strong order book, and more self-help opportunity. We are well placed to navigate uncertain macroeconomic conditions and the Group overall remains on track to make further progress in 2019 and beyond.



Richard Tyson
Chief Executive Officer
5 March 2019

The right strategy to deliver growth and value for our shareholders

We have made investments to accelerate our activities in engineering and business development to support our ambition to deliver more value-added solutions to our customers. We will continue our focus on operational excellence that has been delivering results.

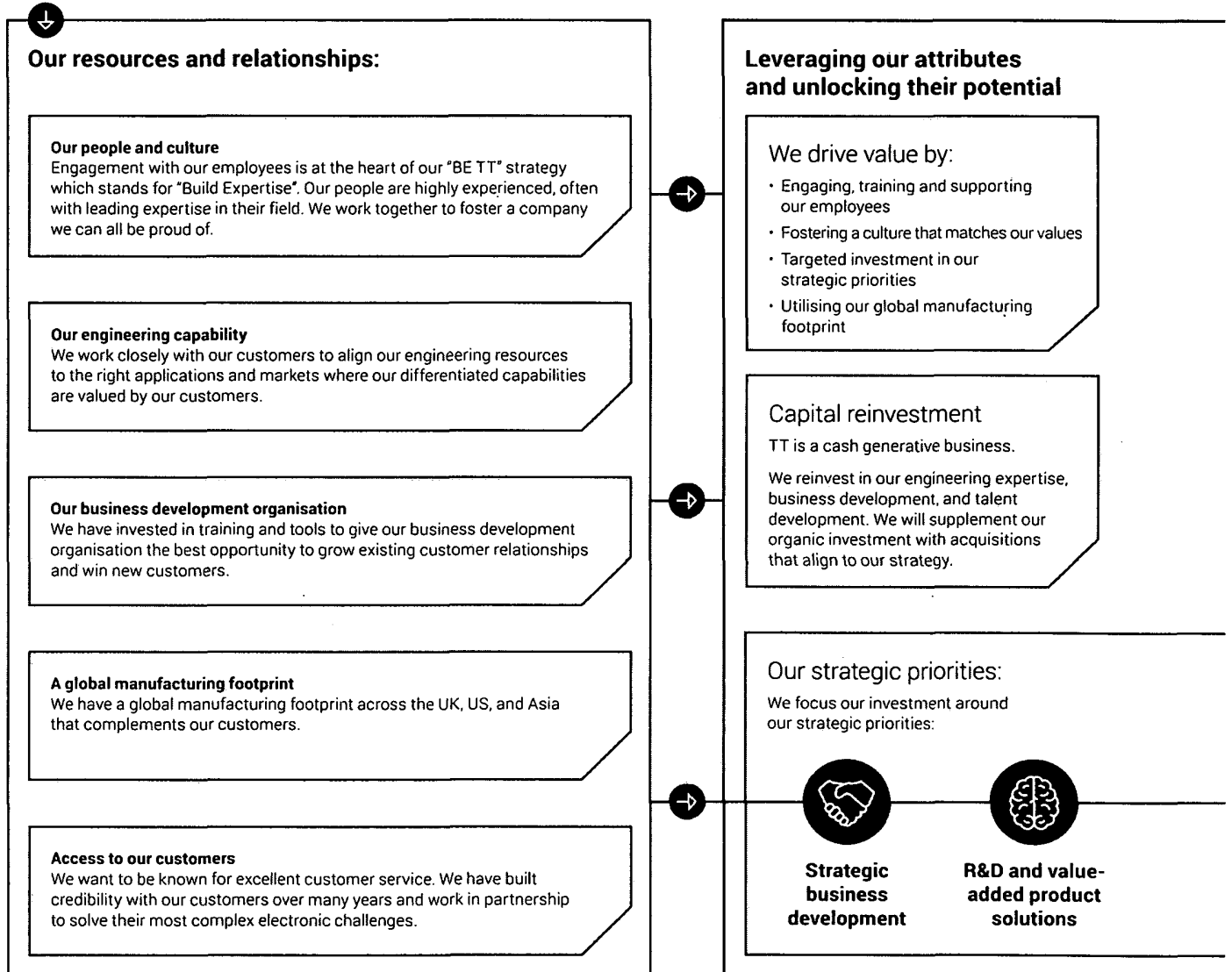
<p>Strategic business development</p> 	<p>We are focused on ensuring our business development function is fit for purpose as TT builds momentum with new product launches and developing strategic partnerships with our customers. We have increased our efforts around training and developing our people to promote a solutions-based sales approach and will focus on continuing to develop strategic customer relationships.</p>	<p>Future priorities We will continue to provide tools, training and development to our customer facing staff. We are focused on developing our key account management programme and our sales council to identify future revenue potential and unlock cross-divisional opportunities.</p>
<p>R&D and value-added product solutions</p> 	<p>As TT moves to be a higher margin, higher value, and increasingly product focused business, the requirement for value-added product solutions, innovation and R&D is increasing. By deploying additional resources in our R&D function, we will prioritise increasing the effectiveness of our R&D spend and accelerate our ability to move up the value-chain where our customers support us doing so to develop smarter solutions together.</p>	<p>Future priorities We are focused on prioritising our R&D investment in areas where we see the best market demand for our capabilities and differentiated solutions. We will increasingly invest in our capabilities to customise platform products that have been launched as well as continuing new product development.</p>
<p>Operational excellence</p> 	<p>We want our customers to recognise TT for our excellent service. Alongside continuing our BE Lean activities, we are focused on optimising our operations and taking sensible actions to improve our procurement effectiveness.</p>	<p>Future priorities We will continue the good work we implemented when we launched our strategy in 2015 around BE Lean and operational excellence across all our sites. We will increasingly focus on the operational performance of sites that are below our TT benchmark.</p>
<p>Value-enhancing acquisitions</p> 	<p>Targeted, complementary acquisitions provide an opportunity to accelerate our strategy and growth opportunities, providing extended capabilities and market access.</p>	<p>Future priorities Having successfully acquired and progressed with the integration of the acquisitions made during 2018, we continue to review sensible acquisition opportunities where we can deploy capital to add complementary capabilities, customers and scope to TT.</p>

<p>Highlights</p> <ul style="list-style-type: none"> • Organic revenue growth was 6 per cent, compared to 5 per cent in 2017 • All customer facing staff received business development training, including those from the acquisitions of Stadium and Precision during 2018 • Good growth in key accounts, including 10 per cent growth in key accounts with aerospace and defence customers in Power and Connectivity • Winning new customers including 14 new customers secured in Global Manufacturing Solutions, double the number of new customers won in 2017 	<p>Link to KPIs</p> <ul style="list-style-type: none"> • Organic revenue growth • Underlying EPS • Return on invested capital • Engagement score • R&D spend
<p>Highlights</p> <ul style="list-style-type: none"> • Increasingly strategic partnerships with our customers has aided the effective deployment of our increased R&D investment • Increased targeted R&D spend, £12.6 million during the year, up 37% • Opened a new Advanced Technology Centre in Shenzhen, China to focus on customised connectivity offerings from platform products launched • Launched a quick response programme resulting in 28 new orders of customisations for our optoelectronic sensor platforms, helping our customers get their products to market rapidly 	<p>Link to KPIs</p> <ul style="list-style-type: none"> • Organic revenue growth • Underlying EPS • Cash conversion • Return on invested capital • Engagement score • R&D spend
<p>Highlights</p> <ul style="list-style-type: none"> • Self-help actions to improve our operational performance has led to improvements in profitability and margin • Shared operational excellence best practice from the new sites that joined TT as part of the Stadium and Precision acquisitions • Procurement synergies identified as part of the Stadium integration, with TT's supply chain team now directly supporting Stadium's operations • Significant performance improvements in our UK Global Manufacturing Solutions operations contributed to six new contracts won during the year compared to one in 2017 	<p>Linked to all KPIs including:</p> <ul style="list-style-type: none"> • Underlying EPS • Cash conversion • Return on invested capital • Safety performance • Engagement score • R&D spend
<p>Highlights</p> <ul style="list-style-type: none"> • Acquired Stadium in April 2018 for an enterprise value of £59.7 million (read more on page 7) • The business is performing ahead of expectations and the integration has progressed well and is now complete. We are confident in delivering the full synergy plan early, with incremental benefit from additional opportunities identified from consolidating our operational capabilities • Acquired Precision in June 2018 for an initial consideration of \$23.5 million and up to an additional \$4 million which may become payable subject to business performance (read more on page 8) • The business is performing in line with our expectations and the integration is proceeding to plan • Announced joint venture with UniRoyal in November 2018 (read more on page 6) 	<p>Link to KPIs</p> <ul style="list-style-type: none"> • Underlying EPS • Return on invested capital • R&D spend

Our business model and strategy

We leverage our attributes to unlock TT's potential.

INPUTS



Creating value for our stakeholders

<p>Shareholders Our strategy is structured to drive growth and create value for our shareholders. We have a progressive dividend policy.</p> <p>16.2p Underlying EPS up 54%</p> <p> See pages 4-5</p>	<p>Employees We reward and support our people globally, both financially and through personal and professional development. We were benchmarked as a 1* great place to work by Best Companies Ltd.</p> <p>4.82 Employee engagement up 2%</p> <p> See pages 46-47</p>	<p>Customers We work with our customers to transform their product ideas into tangible solutions using our leading electronic engineering expertise.</p> <p>6% Organic revenue growth 2017: 5%</p> <p> See pages 16-23</p>	<p>Communities We manage our business activities to minimise the environmental impact of our operations and support the local communities we operate in.</p> <p>>4,700 "hours for giving" to good causes</p> <p> See pages 42-47</p>
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OUTPUT

Our strategy:
Our focused strategy enhances our potential, optimising our business performance to maximise value for each of our stakeholder groups.

Clear market focus
We are focused on building leading positions in areas of the market where there are structural growth drivers, and the trend for "electronics everywhere" is driving demand for our solutions.

Creating differentiated capabilities
We concentrate our time and resources on market areas where our industry expertise and R&D investment creates strong and differentiated capabilities valued by our customers.

Engineering smarter solutions with our customers
We are committed to solving our customers' toughest electronics challenges by engineering smarter solutions together.

How we generate revenue

Our markets

- Industrial**
 Read more on pages 14-17
- Medical**
 Read more on pages 14 and 18-19
- Aerospace and defence**
 Read more on page 14 and 20-21
- Transportation**
 Read more on page 14 and 22-23

Operational excellence

Value-enhancing acquisitions

We go to market with three clear capabilities

Sensing

Power

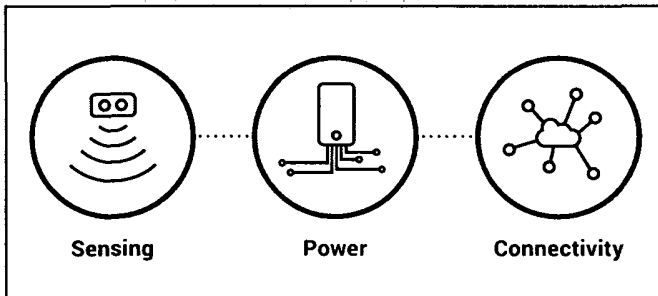
Connectivity

Underpinned by a global manufacturing footprint

Global trends driving structural growth in our markets

We are building leading positions in markets with structural growth drivers where there is 'electronics everywhere'.

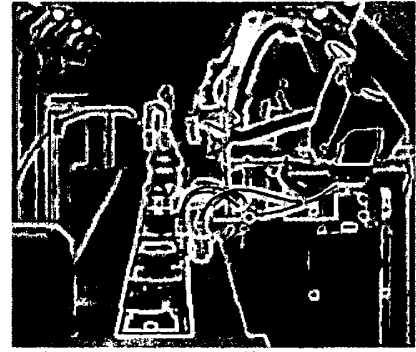
Electronics is everywhere. There are three core areas we address:



We underpin these capabilities with a global manufacturing footprint.

We operate in markets across industrial, medical, aerospace and defence and transportation. Across our markets, electronics has proliferated. In our markets, demand for automation and robotics have exploded; technology is taking medical surgery to a new level; new aircraft platforms are launching with electronics at the heart of driving fuel efficiency; and rail infrastructure is turning to electronics to provide preventative maintenance.

We partner with blue chip customers who are leaders in their field to help solve their toughest electronics challenges. By investing in our R&D and engineering capabilities and developing new products, we can help solve our customers' electronics challenges of the future.



Industrial

Trend description

Customers are demanding technology that drives cost efficiency in their business and aids the production of sophisticated products that require very high accuracy to produce. The global industrial automation equipment market was estimated at \$210 billion in 2018 and is forecast to grow at 4% in 2019¹. The growth for industrial automation is driven by rising industrial production and the demand for increased efficiency through automated machinery.

1. IHS Markit insight, July 2018.

Global industrial automation equipment market estimated at \$210 billion in 2018.

4%

forecast growth in 2019

Our response

Our optoelectronics sensors use light to sense position. We have invested in our encoder technology platform which helps inform the position of robotic arms, allowing for increased accuracy of movement to improve productivity in factories.



Read more on pages 16–17



Medical

Trend description

Investment in medical technology continues as people across the world are living longer and the opportunity for surgical intervention increases. The market for “in-body” surgical devices such as implantable defibrillators, pacemakers and neurostimulation, is growing in excess of 5%¹. These devices provide opportunities for patients with certain heart or brain conditions to live longer, healthier lives.


1. MarketsandMarkets

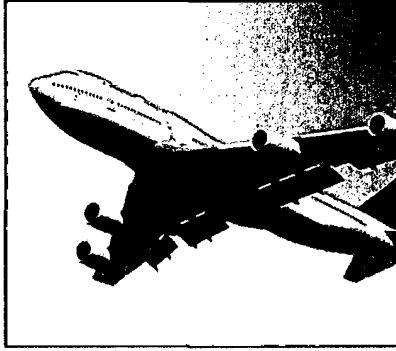
>5%

growth for in-body devices

Our response

During the year we acquired Precision Inc. Precision's primary market exposure is to medical markets. We provide ultra-fine electromagnetic winding technology which is so small it can fit on an “in-body” probe which helps the surgeon accurately identify minute abnormalities such as cancer cells.

 Read more on pages 18–19



Aerospace and defence

Trend description

Growth in aerospace travel is being driven by the increase in the global middle class and general population growth. Consumers are looking for cheaper air travel, forcing aircraft platform manufacturers to deliver lower cost planes driving fuel efficiency and reduced emissions. This is known as the “more electric aircraft” trend with OEMs and system integrators making step changes in technology on each new platform.

The B787 has nearly


10x

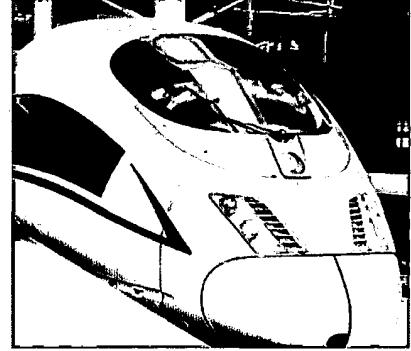
more electrical generating capacity than the B737-200r¹

1. Roland Berger and TT analysis.

Our response

We have continued to invest in power management devices for aerospace and defence. TT's revenues from aerospace and defence are now in excess of £79 million, up from less than £62 million in 2015. We have been working with a tier 1 supplier of systems and equipment for power modules on the A320. These power modules will be used to power the aircraft using electricity rather than the jet engine during taxiing to and from the runway, resulting in reduced carbon emissions. During the year we won a development contract with this customer.

 See pages 20–21



Transportation

Trend description

The number of connected devices using cellular technology, including the 2G, 3G and up to 5G networks, has grown from 174 million units in 2016 to 434 million in 2018 to what is forecast to be more than 1.1 billion units in 2023¹. There has already been significant growth in demand for connected devices and growth is forecast to increase exponentially. A growing application for connected technology is preventative maintenance, including in rail infrastructure as investment in this infrastructure is made globally.

1. Berg Research.


Number of connected devices set to reach more than

1.1bn

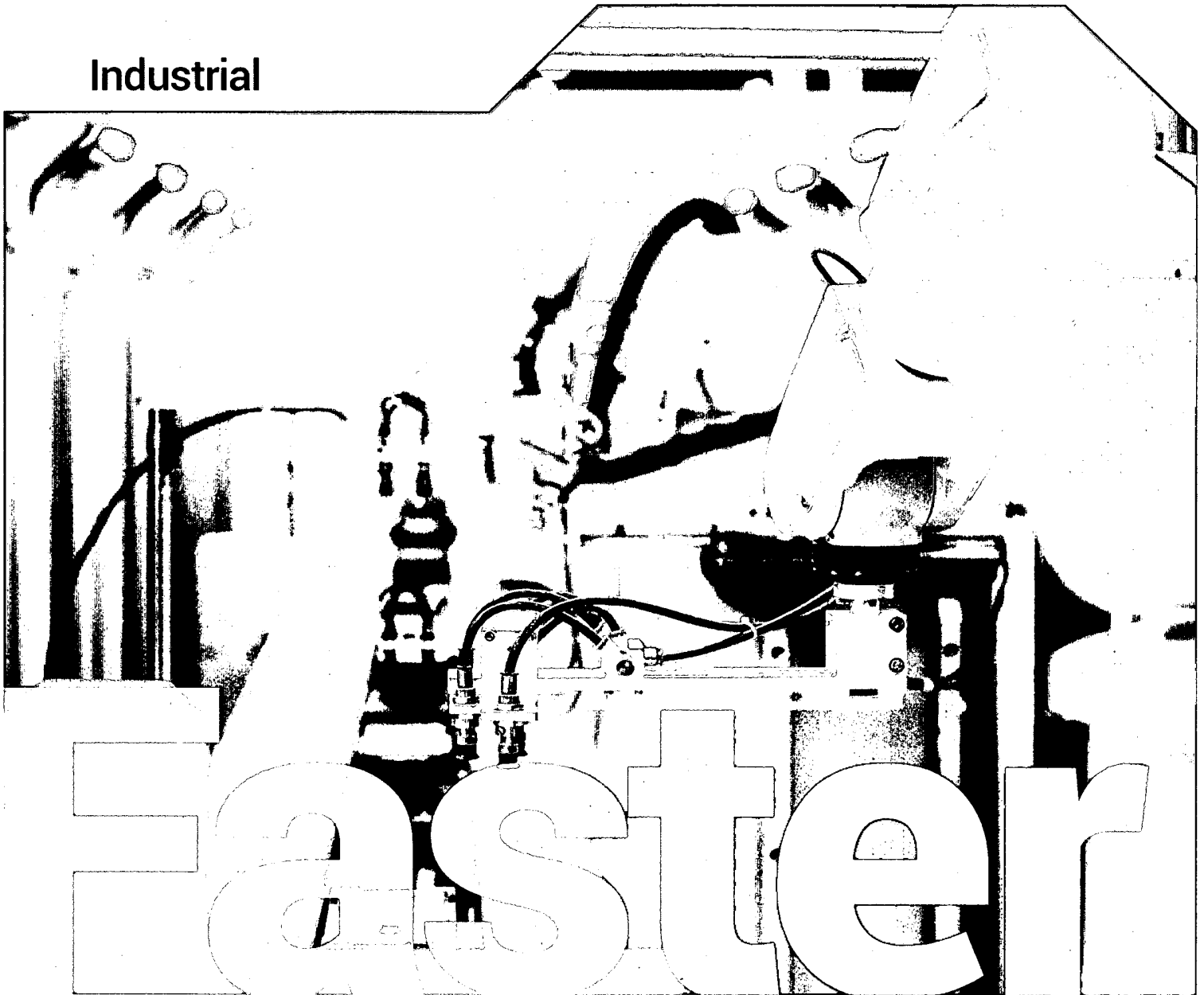
in 2023

Our response

During the year we acquired Stadium Group which provides connectivity solutions, linking together devices and data. Our connectivity solution uses sensor technology connected to the undercarriage of a train to identify abnormalities on train tracks which can be remotely communicated to inform preventative maintenance.


 See pages 22–23

Industrial



From global multinational enterprises to specialist manufacturers, industrial customers choose TT Electronics as their systems solution partner for the most challenging applications. We help our customers to add value to their solutions using our industry expertise and focused Research and Development (R&D) to improve productivity, connectivity, reliability and precision.

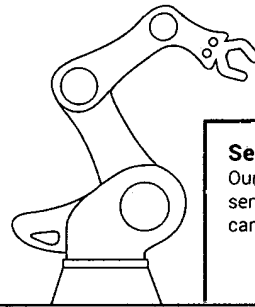
TT provides solutions to industrial markets including for automation and control; energy and smart devices; and infrastructure.

 Read more on pages 14–15 for the structural growth drivers behind the demand for our solutions

We serve industrial markets with each of our three capabilities, sensing, power and connectivity.

An example of our sensing capabilities in industrial markets is in industrial automation where the trend for factory 4.0 is driving demand for our solutions.

We provide sensors for speed and position control and have over two decades of experience in this area of the market. Not only is there an increasing use of robotics within factory environments, but each robot requires an increasing number of sensors to be faster, more accurate and to perform more complex operations with increased dexterity. Our highly reliable, highly accurate sensors provide our customers with higher resolution which results in greater precision, and provides analogue and digital outputs to make it easier for our customers to integrate our sensor into their system.

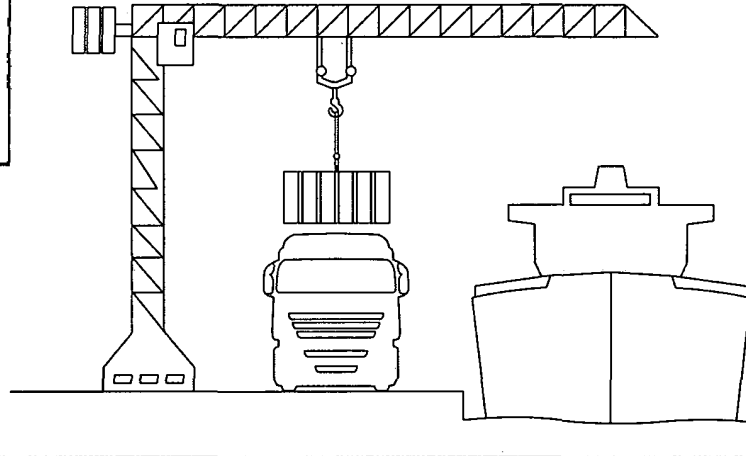
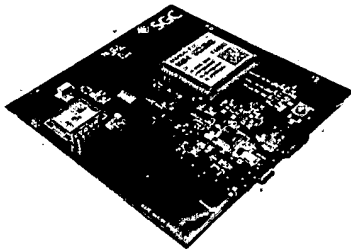


Sensors

Our optoelectronic sensor uses light to sense position and speed. Our sensors can be used in robotic automation.

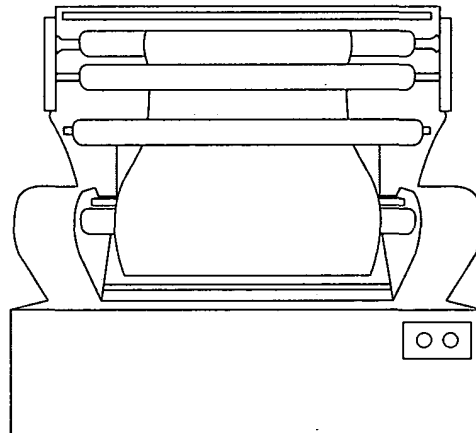
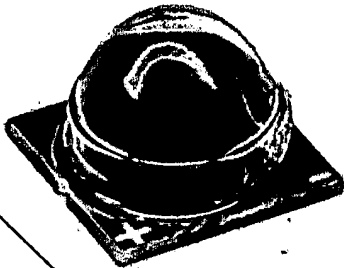
Connectivity platforms

Our connectivity platform solutions are used for asset tracking and allows the customer to monitor their assets and their vital signs.



Sensors

Our optoelectronic sensors use light to sense the position and colour of an object. Our sensors can be used inside a printer, allowing the customer to better manage and monitor the printing process.



Our sensors are also used in industrial printing. Our sensors use light to sense not only the position or presence of an object, but our sensor can be programmed to sense different colours, including transparent or semi-transparent materials while working over different distances. One of the key advantages for our customer, is the small size of the sensor which enables it to fit inside our customers' solutions. We also provide printed circuit board assembly solutions to the industrial printing market, using our value-added engineering services to support our customers' end solution.

We also provide connectivity solutions to the industrial internet of things market. One example of our connectivity solution in use in the market is for asset tracking. Our platform device provides our customer with complete supply chain visibility, tracking the location and quality of the goods. By monitoring the assets from leaving the factory gate, across road and shipping networks through "on-shore off-shore on-shore" tracking the customer can monitor asset loss. As well as tracking the location of the asset throughout the journey, our device enables the customer to monitor and manage other vital signs such as temperature to prevent asset deterioration.



Read more about TT's solutions for the medical market online at ttelelectronics.com/markets/industrial

Medical



We work with some of the world's leading medical equipment developers and manufacturers. Our customers rely on our experience in high-precision and high-reliability applications for their life-critical medical devices and equipment and we support independent design firms and contract manufacturers from design to production.

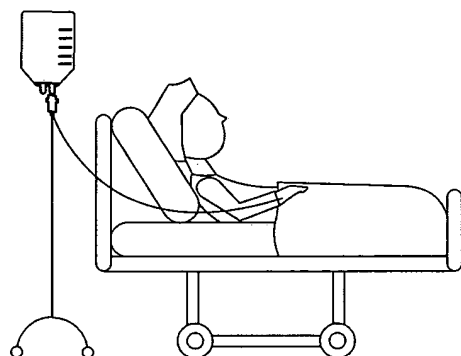
TT provides solutions to the medical market including advanced surgical devices; imaging and direct patient care; laboratory automation and diagnostics.



Read more on pages 14–15 for the structural growth drivers behind the demand for our solutions

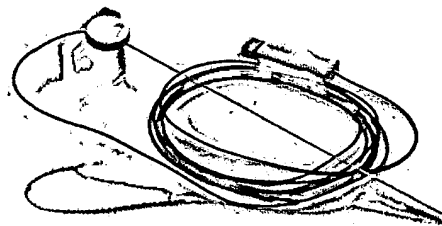
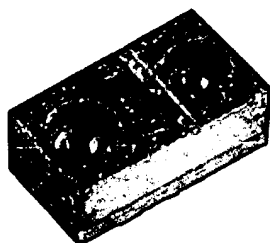
Medical and life science companies trust us to support them with their applications, relying on our years of expertise and specialist manufacturing facilities which ensure we meet or exceed the highest requirements of medical certifications required by our customers.

We recently launched our PhotoLogic V optical sensor which is able to detect small changes in contrast or reflected light. The sensor is able to deliver reliable performance across a wide temperature range and is smaller than 1cm, providing a space efficient solution for customers where size is critical. The sensor can be used across a range of industries, and in medical markets can be used across hospital and lab equipment and portable equipment. The sensor can be used in applications including blood analysis and detecting bubbles or contaminations in drips.



Sensor

Our PhotoLogic V optical sensor is able to detect small changes in contrast or reflected light. The sensor has applications across multiple markets including medical.

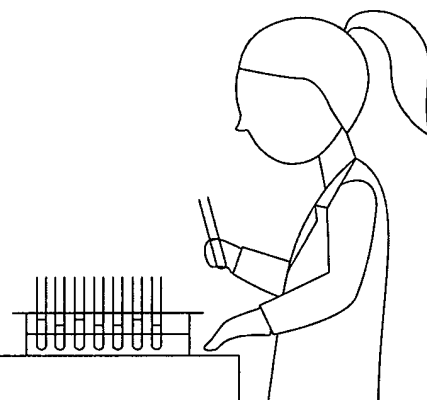
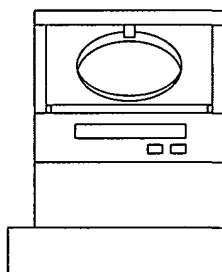


"In-body" medical device

The stilet uses our ultra-fine wire winding to allow the surgeon to detect the position of the probe with pin-point accuracy via an electromagnetic field.

Laboratory equipment

We are experts at "design for manufacturing" of medical products including mass spectrometry and laboratory equipment.



The acquisition of Precision has provided us with a new product offering for "in-body" surgical devices including defibrillators, neuro-stimulation and pacemakers as well as medical surgical navigation devices. Medical professionals are being supported by medical technology to improve productivity and reduce the requirements for larger, more invasive procedures in favour of a growing number of "in-body" surgeries.

The ultra-fine wire winding capability provides improved accuracy and reduced size enabling cutting edge medical surgery where precise intervention is required. The stilet shown above uses our ultra-fine wire winding.

The stilet is a tube and can hold a number of different surgical devices which allows the surgeon to extract tiny tumours among other things, and can be used in neurological, cardiology or pulmonary procedures.

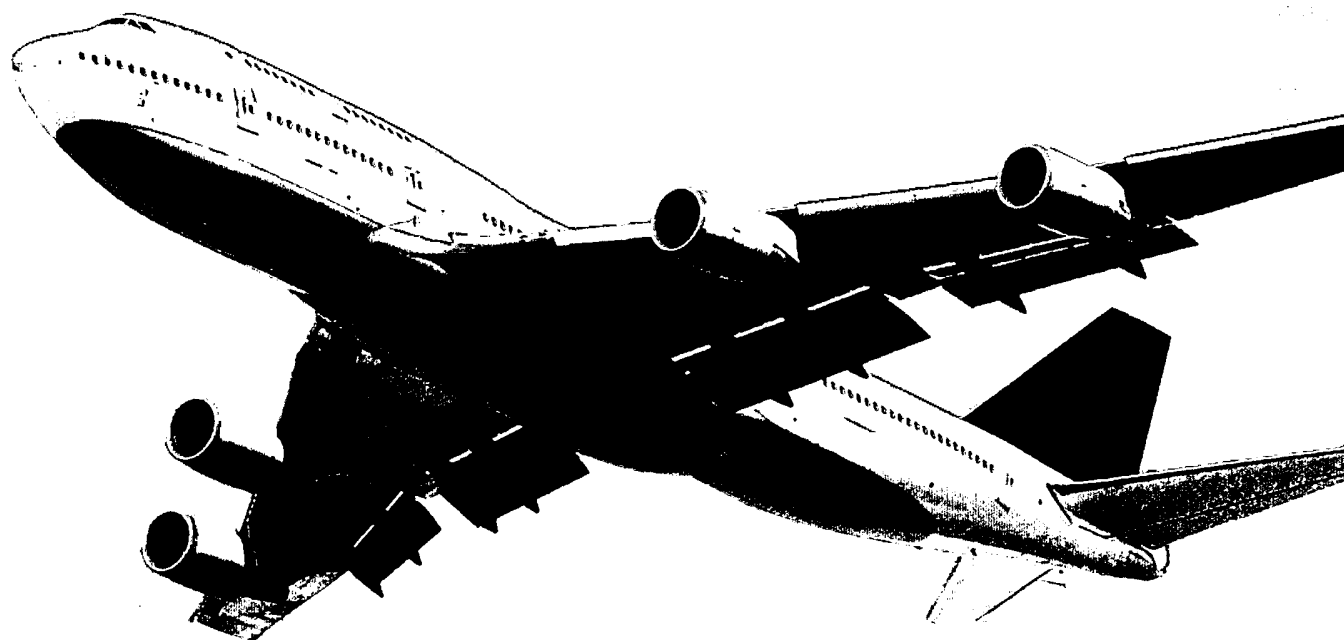
We also support the manufacture of a number of medical products for our customers including mass spectrometry and laboratory equipment as well as portable ultrasounds. We work with our medical customers across their new product introduction to help our customer with rapid speed to market by addressing manufacturing challenges during the design phase of product development.

Alongside our engineering expertise providing value-added engineering to the design process, we have invested in a state of the art clean room to meet stringent requirements of our medical customers. Our clean room provides a production environment with minimal pollutants, ensuring that sensitive electronics are not harmed during the manufacturing process. The equipment located within the clean room itself is specifically designed to emit minimal levels of air contamination.



Read more about TT's solutions for the medical market online at ttelectronics.com/markets/medical

Aerospace and Defence



We offer high-reliability aerospace and defence technologies for safety-critical applications used in harsh environments. Our experience and expertise in design and manufacturing has led us to build long-term partnerships with our customers. Our products and technologies deliver peak performance, endurance and dependability.

TT provides solutions for commercial and military aircraft; space and satellite and defence systems and vehicles. We have a presence on all major commercial aircraft platforms as well as strong positions on defence platforms and business jets. Having our products on platforms gives us good visibility of future revenue streams.

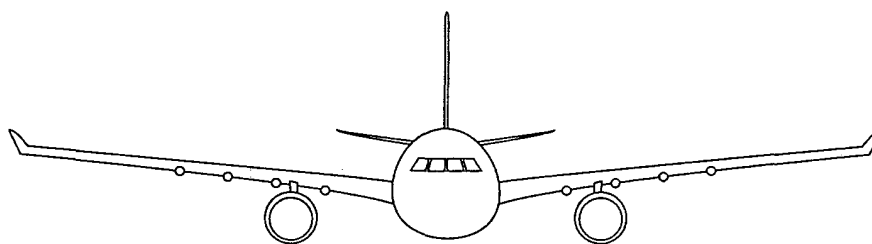
Many of our solutions are focused around managing power effectively and efficiently on an aircraft. This involves providing good quality and reliable power that requires less human intervention to manage and reduced maintenance requirements. Our electronics are critical

to the power challenges our customers face in the restricted power environment of an aircraft.



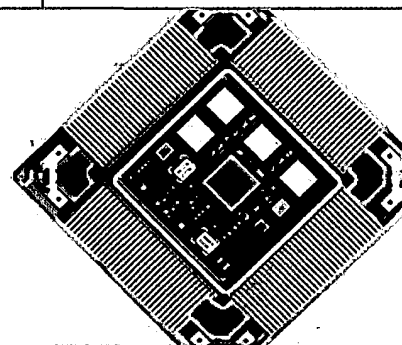
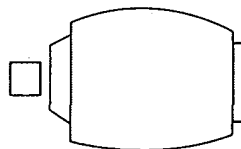
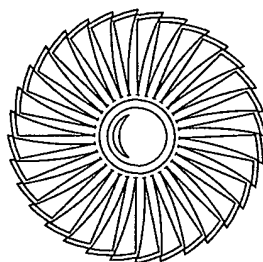
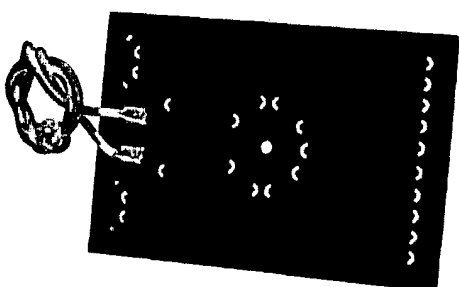
Read more on pages 14–15 for the structural growth drivers behind the demand for our solutions

Our electromagnetic solutions are at the core of the power electronics system on an aircraft. We enhanced our electromagnetic capabilities during the year with the acquisition of Precision which follows the acquisitions of Aero Stanrew (2015) and Cletronics (2017) in this space. Precision's ultra-fine wire winding capabilities and manufacturing



Power management device

Used on the Airbus A350 in the flight control actuation system.

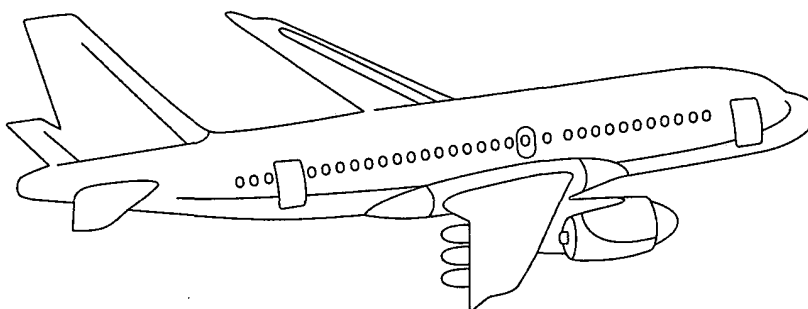


Power and control microcircuit

Used in the digital engine control unit.

Electromagnetic solutions

Transformer rectifier unit used on the Airbus A380 to manage power in the fuel pump.



techniques have highlighted new opportunities to expand into aerospace and defence markets using TT's domain expertise in this sector.


We have deployed our electromagnetic capabilities in the primary flight control actuation system to improve and regulate the power quality in the system; our solution helps to make the current in the system "clean". We often sit alongside our customers engineering teams providing an "engineer to engineer" solution. We after often sole sourced.

Other power capabilities adjacent to our electromagnetic solutions include power controls and hybrid microcircuits. Our

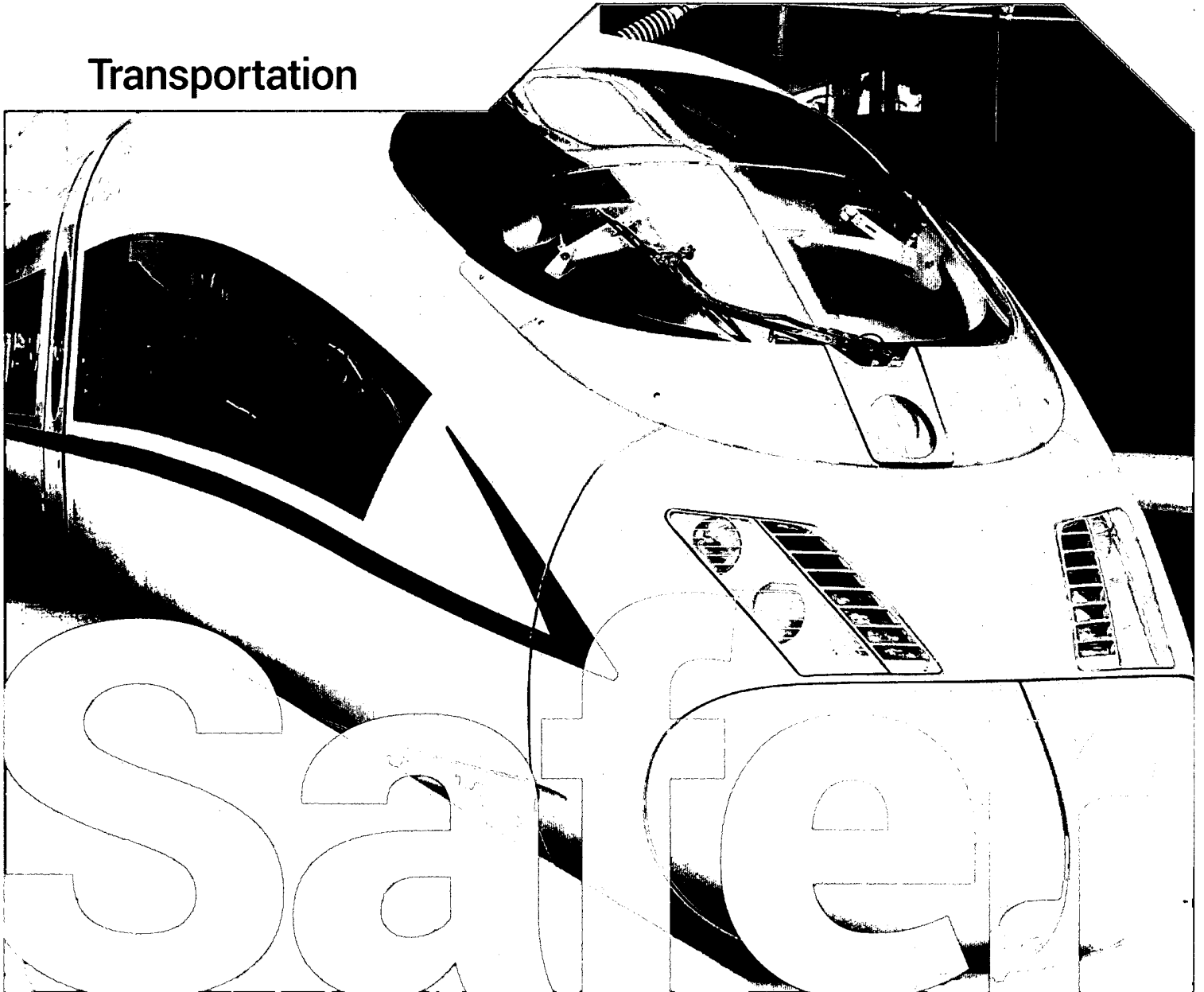
power and hybrid microcircuit provides power management for the digital engine control unit known as "the brain" of the engine which controls all aspects of engine performance. Our solution controls the processing power needed to enable the engine to perform at maximum efficiency for any given condition with minimum pilot intervention.

We also provide power management devices for the A350 flight control actuation system. Our custom solution helps manage the efficiency of the power in the system, an important requirement for our customers particularly given the scarce availability of power on an aircraft. The customers' challenge was to create a

replacement for electrically controlled hydraulic braking systems. Our solution provided a higher power density to size allowing the customer to reduce the weight of their braking system, contributing to improved fuel efficiency on the aircraft.


 Read more about TT's solutions for the aerospace and defence market online at ttelectronics.com/markets/aerospace

Transportation



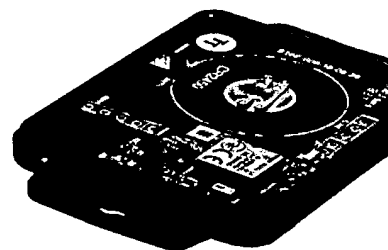
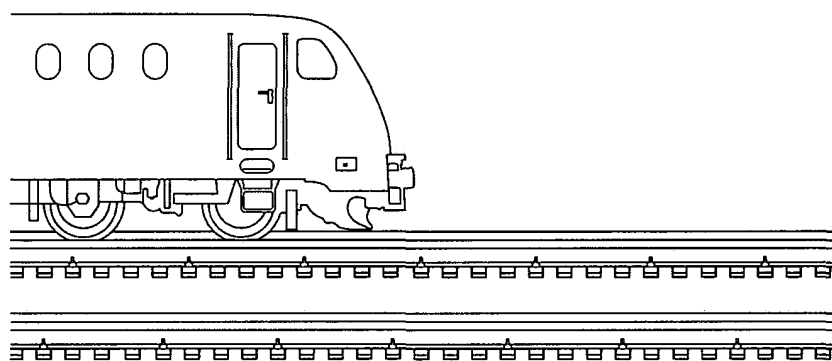
We specialise in providing solutions for rail and automotive customers including electric vehicles ranging from motor related power solutions to complex integrated product assemblies. By combining our core competencies in material sciences as well as electronics and mechanical engineering, our deep understanding of our customers' needs allows us to develop innovative products.

We work with our customers to develop smarter solutions together from battery power optimisation in automotive vehicles to bespoke rail infrastructure requirements for next generation rail travel.

 Read more on pages 14–15 for the structural growth drivers behind the demand for our solutions

Following the disposal of the Transportation division in 2017, our end-market exposure to automotive has been materially reduced to 6 per cent of Group revenues.

The acquisition of Stadium Group has expanded our capabilities and we now offer Connectivity solutions to the transportation market. We have developed a wireless solution to be fitted on the underside of train carriages to sense, detect and transmit movement of the train across the track to signal track damage. The solution enables the customer to identify precisely where the track might require repair, improving efficiency and cost.

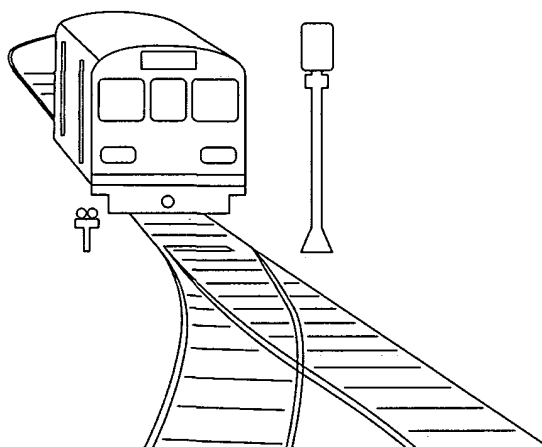
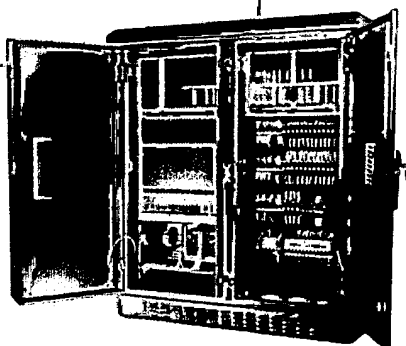


Connectivity platform

Wireless solution to be fitted on the underside of train carriages to sense, detect and transmit movement of the train across the track to signal track damage.

Rail signalling equipment

We provide "design for manufacture" engineering services for a Chinese rail customer for rail signalling equipment.



We also provide integrated manufacturing services to rail customers including a Chinese rail customer to whom we provide a complex assembly solution for rail signalling equipment. We have a longstanding pedigree in the rail market in China, having been the first manufacturing services provider to pass the International Rail Industry Standard (IRIS) in 2009, qualifying us as a supplier to the global rail industry.



Read more about TT's solutions for transportation market online at ttelelectronics.com/markets/transportation

Key performance indicators

Financial

Organic revenue growth (%)

6%

2017: 5%

Link to strategic priorities:



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

Relevance: Our organic revenue growth measures the underlying growth of the business and is an indicator of our ability, over the longer term, to position ourselves in structural growth markets.

Performance: Positive market conditions combined with new customer wins and growth in key customer accounts is reflected in strong organic revenue growth, particularly in the second half, where organic growth was 9%.

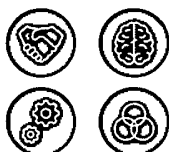


Underlying earnings per share (EPS) (p)

16.2p


2017: 10.9p 54% (constant currency)

Link to strategic priorities:



Description: Underlying EPS is calculated as underlying profit after tax for the year, divided by the weighted average number of shares in issue during the year.

Relevance: This is relevant to determining corporate profitability for shareholders. Underlying EPS is a measure used as one of the performance conditions in the Group's Long-Term Incentive Plan.

 See more on the link to remuneration on pages 72–73

Performance: Underlying EPS has increased by 54 per cent, due to underlying operating profit growth from organic improvement and the contribution from acquisitions.



Cash conversion (%)

88%

2017: 98%

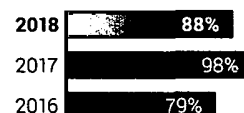
Link to strategic priorities:



Description: Cash conversion is defined as underlying operating cash flows, expressed as a percentage of underlying operating profit.

Relevance: Cash conversion measures how effectively we convert profit into cash, and tracks the management of our working capital and capital expenditure.

Performance: Our continued focus on generating cash has resulted in another good year of cash conversion despite pressure on working capital from growth and component shortages in the market.



Return on invested capital (%)

11.5%

2017: 10.6%

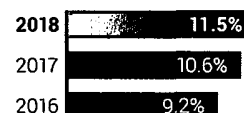
Link to strategic priorities:



Description: Return on invested capital is defined as underlying operating profit for the year divided by monthly average invested capital for the year. Average invested capital excludes provisions, tax balances and financial assets and liabilities, including cash and borrowings.

Relevance: This measures how efficiently we use our assets to generate returns, with the target of exceeding the cost of holding the assets.

Performance: Our 90bps improvement in ROIC is a result of excellent profit growth coupled with capital discipline while at the same time deploying capital on acquisitions.



Non-Financial

**Safety performance
(No. of incidents)**

17

2017: 7 ((59)%)

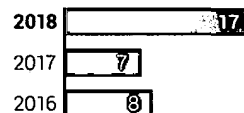
Link to strategic priorities:



Description: Safety performance is quantified as the number of occupational injuries resulting in three or more days' absence.

Relevance: 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 our facilities worldwide, reflecting our commitment to raising standards globally.

Performance: We have had a disappointing safety performance this year. Having seen a period of significant improvement, we have analysed issues, shared experiences, and are in the process of re-doubling our efforts, focusing on near misses, preventative measures and behaviour-based safety training. Nearly a quarter of the accidents related to a single site where we have taken swift action to review our safety procedures and reinforce our safety culture. 13 of our sites achieved zero harm. We continue to focus on our goal of zero harm in every site.

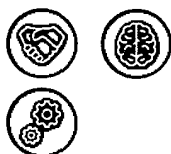


Engagement score

4.82

2017: 4.73

Link to strategic priorities:

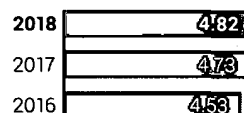


Description: We use our employee survey to measure how our employees feel about working for TT, using a scale of one (low) to seven (high) against eight factors (as surveyed by Best Companies Ltd).

Relevance: Employee engagement is at the heart of our strategy. We want our employees to be proud to work for TT. Our values are set out in the "TT Way".

See more on pages 42–47

Performance: We continue to see strong levels of engagement across the Group; our engagement score was up, and our participation rate remained high at 85%. Each site is establishing an engagement plan in collaboration with their employees to address local priorities. We continue with our commitment to make TT a great place to work and this year were benchmarked as a 1* by Best Companies Ltd.

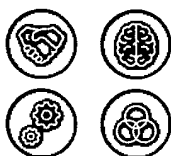


**R&D spend
(% of sales¹)**

5.1%

2017: 4.6%

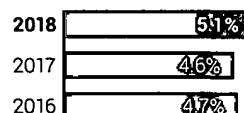
Link to strategic priorities:



Description: R&D spend is defined as the cash spent on R&D in the Sensors and Specialist Components and the Power and Connectivity divisions.

Relevance: This KPI is an indicator of operational performance, as we continue to invest in R&D to generate new products and extend our capabilities.

Performance: We have increased the cash spend by 37 per cent at constant currency, including R&D investment made in the two acquisitions. Our growing investment reflects the increased confidence we have of targeting our spend for the best return as we continue to develop strategic relationships with our customers. We continue to incrementally increase R&D spend to focus on new product development and custom R&D development.



1. Sales include revenues from the Sensors and Specialist Components and Power and Connectivity divisions. It does not include sales from the Global Manufacturing Solutions division as this division does not consume R&D.

Our strategic priorities:



Strategic business development



R&D and value-added product solutions



Operational excellence



Value-enhancing acquisitions


We provide leading engineering expertise

Our people, who deliver our leading electronic engineering expertise, customer relationships and operational excellence, are the foundation of TT. Our people design and manufacture differentiated product capabilities to solve our customers' most complex challenges. Our products are deployed in performance-critical applications in harsh, often regulated, environments.




Sensors and Specialist Components

The Sensors and Specialist Components division works with customers to develop standard and customised solutions including sensors and power management devices. Our solutions improve the precision, speed and reliability of critical aspects of our customers' applications.

 See more on pages 28–29


Power and Connectivity

The Power and Connectivity division develops and manufactures power application products and connectivity devices which enable the capture and wireless transfer of data. We collaborate with our customers to develop innovative solutions to optimise their electronic systems.

 See more on pages 30–31

Global Manufacturing solutions

The Global Manufacturing Solutions division provides manufacturing services and engineering solutions for our product divisions and to customers that often require a lower volume and higher mix of different products. We manufacture complex integrated product assemblies for our customers and provide engineering services including designing testing solutions and value-engineering.

 See more on pages 32–33



Sensors and Specialist Components

The Sensors and Specialist Components division works with customers to develop standard and customised solutions including sensors and power management devices. Our solutions improve the precision, speed and reliability of critical aspects of our customers' applications.

Overview of 2018

Sensors and Specialist Components revenues were £149.8 million (2017: £142.3 million) an increase of 5 per cent and 8 per cent on an organic basis (excluding a £3.6 million adverse foreign exchange impact). Revenue growth was a result of increased volumes, particularly in our optical sensing and power management product lines.

Underlying operating profit improved to £21.3 million (2017: £18.8 million), an increase of 16 per cent at constant currency excluding a £0.4 million adverse foreign exchange impact. The profitability of the division improved as a result of operational leverage on the organic revenue growth and improvements in pricing. Underlying operating profit margin was 14.2 per cent, up 90 basis points at constant currency.

During the year, we announced a joint venture with UniRoyal for sensing and power management devices with our long-term supply partner. UniRoyal is a large manufacturer in this growing technology area. The partnership will combine TT's design engineering and worldwide distribution channels with Uniroyal's penetration in the Asian market and higher volume manufacturing

In summary

Largest market
Industrial

72%
Revenue

Largest geography

UK	Europe
Asia and RoW*	North America

* Rest of World.

Revenue

£149.8m
2017: £142.3m
+5% (+8% at constant currency)

Underlying operating profit¹

£21.3m
2017: £18.8m
+13% (+16% at constant currency)

Underlying operating profit margin¹

14.2%
2017: 13.2%
+100bps (+90bps at constant currency)

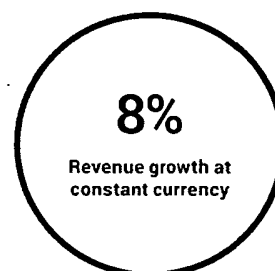
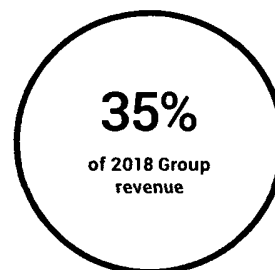
Percentage of Group revenue

35%
2017: 39%

Organic revenue growth at constant currency

8%
2017: 6%

1. Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).





Employees

c.2,300

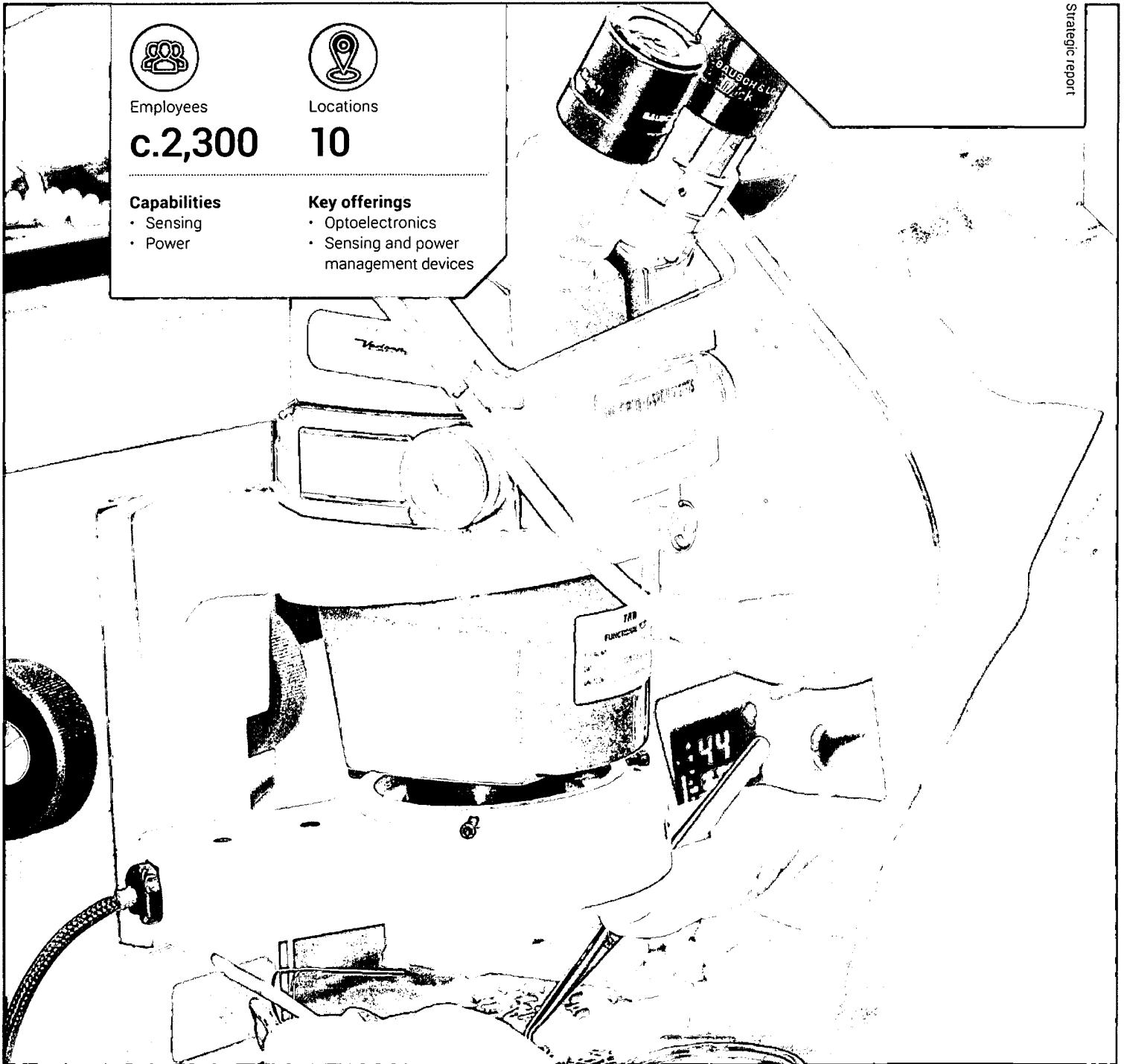
Locations

10**Capabilities**

- Sensing
- Power

Key offerings

- Optoelectronics
- Sensing and power management devices



capabilities. Together, we will be able to address medium volume opportunities with our existing customer base across a variety of markets.

We achieved strong growth in our sensing and power management product lines. These product lines sense and manage the power in electric circuits, protecting, managing or measuring current to optimise the performance of the electrical system. The strong growth was a result of market demand, particularly in our products that measure current, with 3 notable new contract wins. We also saw

good growth from a platform of products that we identified as a priority in 2015 and have been in a ramp-up phase over the last three years. In 2018 sales growth from this product line contributed well to revenue growth. Following the success of previous product launches, we've continued to invest in the development of further platforms. We launched 5 new sensing and power management products during the year supported by our new product and testing cell in Bedlington which allows us to respond to requests from customers faster.

Our optical sensors, also saw good revenue growth during the year. We won a new contract for a navigation system for an aerospace and defence customer and a new contract with a Taiwanese electronics manufacturer of products used in robotic automation. During the year, we launched a quick response customisation programme resulting in 28 new orders of higher-level assemblies for our optical sensor platforms, helping our customers get their products to market rapidly.

Power and Connectivity

The Power and Connectivity division designs and manufactures power application products and connectivity devices which enable the capture and wireless transfer of data. We collaborate with our customers to develop innovative solutions to optimise their electronic systems.

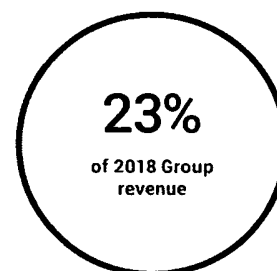
Overview of 2018

Power and Connectivity revenues were £97.9 million (2017: £64.5 million), including a £36.4 million contribution from the acquisitions of Stadium (April 2018) and Precision (June 2018). Organic revenues were down 4 per cent, as expected, due to the absence of the high margin one-off sales relating to the last time buy activity from a site closure in the US. In the second half, revenues grew 4 per cent organically.

Underlying operating profit was £8.4 million (2017: £6.2 million), including £4.6 million profit from the acquisitions. The acquisitions contributed at an underlying operating profit margin of 12.6 per cent. Profitability was impacted by the absence of high-margin last time buy sales as expected. The first half investment in capacity and efficiency improvements delivered the expected margin improvements in the second half.

During the year, we have benefited from revenue growth from aerospace and defence product lines that were outsourced to us from our OEM customers in 2017. We also benefited from increased demand for our power controls for navigation products in defence applications.

Following an increased focus on key account management, we grew our revenues with these customers in aerospace and defence by 10 per cent. The macro trend towards the "more electric aircraft" continues to drive demand for our solutions. We won a development contract to supply power modules for a new E-Taxi system on the Airbus A320.



In summary

Largest market
Aerospace and Defence

48%
Revenue

Largest geography

57%

UK

15%

Europe

10%

Asia and RoW*

18%

North America

Revenue

£97.9m
2017: £64.5m²
+52% (+53% at constant currency)

Underlying operating profit¹

£8.4m
2017: £6.2m
+35% (+40% at constant currency)

Underlying operating profit margin¹

8.6%
2017: 9.6%²
(100)bps ((80)bps at constant currency)

Percentage of Group revenue

23%
2017: 18%

Organic revenue growth/
(decline) at constant currency

(4)%
2017: 14%

1. Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).

2. Re-stated for IFRS15.

* Rest of World.



Employees

c.1,100



Locations

15

Capabilities

- Sensing
- Power

Key offerings

- Electromagnetics
- Connectivity devices



The E-Taxi system will power the aircraft using electricity rather than the jet engine during taxiing to and from the runway, resulting in reduced carbon emissions.

We made progress with our connectivity offerings, securing a partnership with a major distributor for the production of IoT solutions based around single board computers. We saw good growth in the second half of the year across our

connectivity offerings. We also launched a range of connectivity platform products to drive growth for future years. The IoT hardware platform product range has the ability to be rapidly customised for end customer requirements. An example application is for a European medical customer where we had good growth this year. This connectivity device is used to remotely monitor medical equipment and patients in their homes or a care centre.

We continue to invest in R&D and engineering, and during the year, we opened a new advanced technology centre in Shenzhen, China, dedicated to providing custom development to connectivity solutions for our market. This dedicated facility will help reduce development time, enabling our customers to get their products to market quickly.

Global Manufacturing Solutions

The Global Manufacturing Solutions division provides manufacturing services and engineering solutions for our product divisions and to customers that often require a lower volume and higher mix of different products. We manufacture complex integrated product assemblies for our customers and provide engineering services including designing testing solutions and value-engineering.

Overview of 2018


Global Manufacturing Solutions revenues were £181.8 million (2017: £154.3 million), up by 8 per cent organically. The acquisition of Stadium contributed £16.6 million to revenue in the division. Revenue growth was driven by the continued strength of our offering to Chinese and Asian customers. We have also seen good growth again with our medical customers.

Underlying operating profit increased from £6.5 million in 2017 to £11.3 million in 2018. There was a £0.8 million contribution from acquisitions and an adverse foreign exchange movement of £0.1 million. Underlying operating profit grew as a result of operational improvement and operational leverage on increased revenues. Underlying operating margins increased to 6.2 per cent which is at the top end of our benchmark range (2017: 4.2 per cent). Margin improvement was a result of operational leverage on the revenue growth as well as a turnaround in the performance of our UK operations.

The strong performance also reflected investments made in strategic business development, including training all our customer facing staff during the year. This has resulted in the development of strategic partnerships with our customers in addition to winning 14 new customers during the year, all of which will deliver multi-year revenues.


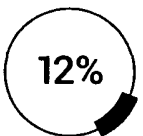


In summary

Largest markets
Medical



42%
Revenue

Largest geography

UK  31%	Europe  12%
Asia and RoW*  25%	North America  32%

* Rest of World.

Revenue
£181.8m
2017: £154.3m²
+18% (+19% at constant currency)

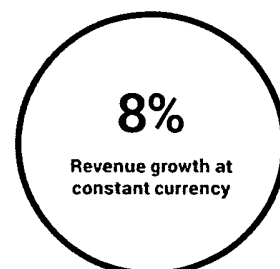
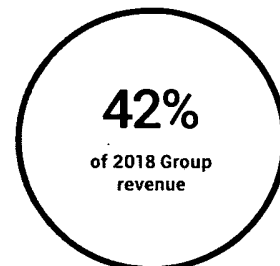
Underlying operating profit¹
£11.3m
2017: £6.5m
+74% (+77% at constant currency)

Underlying operating profit margin¹
6.2%
2017: 4.2%
+200bps (+200bps at constant currency)

Percentage of Group revenue
42%
2017: 43%

Organic revenue growth at constant currency
8%
2017: 14%

1. Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).
2. Re-stated for IFRS15.





Employees

c.1,500



Locations

4

Capabilities

- Manufacturing and engineering services

Key offerings

- Design for manufacture
- Manufacturing assembly and systems integration
- Reliability and functional testing
- Value engineering



We extended our strategic partnerships with our key customers, including an industrial labelling and packaging device company where we provide full system integration as well as value engineering support for the customers new product development.

During the year, we delivered strong operational improvement in our UK operations. We won six new contracts in the UK, including aerospace and defence contracts for a European aerospace OEM and a new contract for a military aerospace programme.

We have been increasingly focused on key account management and this resulted in a notable win with a US aerospace systems company following an introduction from our sales teams in the Power and Connectivity division. The contract is to provide systems integration for a navigation processor for commercial aerospace applications.

Strong organic financial performance bolstered by acquisitions



We delivered strong organic growth and margin improvement in 2018 bolstered by the acquisitions of Stadium and Precision."

Mark Hoad
Chief Financial Officer

2018 was a year of strong organic growth, excellent profit progression, further margin improvement and continued good cash conversion. The acquisitions of Stadium and Precision enhanced overall revenue growth and margin improvement. Group revenue for 2018 was £429.5 million (2017: £361.1 million) an increase of 6 per cent organically. Acquisitions contributed revenue of £53.2 million (including Cletronics). There was a £5.9 million adverse impact from foreign exchange. New customer wins and additional business from existing customers have contributed to growth this year. We saw good growth with customers across all geographies, with customers from Asia now representing over £100 million of our sales. The Group's order book has improved significantly compared to the same time last year with strength in all divisions.

Underlying operating profit increased by 42 per cent at constant currency to £33.4 million (2017: £24.3 million). The acquisitions of Stadium (April 2018) and Precision (June 2018) contributed £5.4 million. Statutory operating profit was £16.5 million (2017: £20.0 million) down 18 per cent due to increased exceptional costs relating to the acquisition of Stadium and Precision and the impact of Guaranteed Minimum Pension ("GMP") equalisation. Statutory profit before tax was £14.6 million (2017: £17.7 million).

Financial headlines

- 6% full year organic revenue growth; 9% organic growth in H2
- Underlying operating profit and PBT both materially increased
- Underlying operating margins up by 120 basis points to 7.8%
- Good underlying cash conversion at 88%
- Full year dividend up 12% to 6.5p
- Increase in acquisition and disposal costs; statutory PBT down 18%

Results for the year ended 31 December 2018

£million unless otherwise stated	Underlying ¹			Change constant fx	Statutory	
	2018	2017 ⁴	Change		2018	2017
Remuneration structure						
Revenue	429.5	361.1	19%	21%	429.5	361.1
Operating profit	33.4	24.3	37%	42%	16.5	20.0
Operating profit margin (%)	7.8%	6.7%	110bps	120bps		
Profit before tax	31.5	22.0	43%	48%	14.6	17.7
Earnings per share (pence)	16.2p	10.9p	49%	54%	8.0p	9.7p
Return on invested capital ²	11.5%	10.6%				
Cash conversion ³	88%	98%				

1. Excluding the effect of restructuring and other non-recurring costs and acquisition related costs.

2. Rolling 12 month underlying operating profit return on average invested capital.

3. Underlying operating cash flow (EBITDA less net capital expenditure excluding property disposals, capitalised development expenditure, working capital and non-cash movements) divided by underlying operating profit. Please see note 8 for more information.

4. Re-stated for IFRS 15.

The organic improvement was primarily driven by the Sensors and Specialist Components and Global Manufacturing Solutions divisions with Power and Connectivity delivering good growth in the second half of the year. The acquisitions performed well, with Stadium performing ahead of expectations. The integration of Stadium is now complete, ahead of plan, and the integration of Precision is progressing well. Underlying operating profit margin for the Group has improved by 120 basis points at constant currency to 7.8 per cent (2017: 6.7 per cent) and return on invested capital increased by 90 basis points to 11.5 per cent (2017: 10.6 per cent). We delivered another year of good cash conversion of 88 per cent (2017: 98 per cent) and a free cash inflow of £8.5 million (2017: £4.7 million).

Closing net debt at the end of the year was £41.7 million (2017: net funds £47.0 million), with borrowings increased as a result of acquisitions made during the year totalling £63.8 million. As a result, net debt to underlying EBITDA at the end of the year was 0.9x (2017: nil).

Please see the Chief Executive's strategic review on pages 6–9 for detail on the divisional performance.

Non-underlying items

Statutory operating profit was £16.5 million (2017: £20.0 million), down 18 per cent. The decrease is primarily due to increased exceptional costs relating to the acquisitions of Stadium and Precision and costs associated with site restructuring.

Non-underlying 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.

Profit from continuing operations in the year reduced to £13.0 million (2017: £15.7 million) after a charge for items excluded from underlying profit of £16.9 million (2017: £4.3 million). Restructuring and other costs totalling £4.9 million (2017: £1.6 million) related to £2.7 million of footprint change projects and the £5.8 million impact of GMP equalisation which were partially offset by a £3.6 million profit on the disposal of a surplus property. Acquisition and disposal costs totalled £12.0 million (2017: £2.7 million) including £6.7 million of cash costs linked to the acquisition of Stadium and Precision, with the balance largely related to non-cash amortisation of acquired intangibles. Profit from discontinued operations was £0.4 million (2017: £32.0 million).

Other financial matters**Exchange rates**

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

	Average	2018 Closing	Average	2017 Closing	Average	2016 Closing
US\$	1.34	1.27	1.29	1.35	1.36	1.24
Chinese RMB	8.84	8.74	8.73	8.81	9.02	8.59

Strong organic financial performance bolstered by acquisitions continued

Interest

The net interest expense of £1.9 million decreased by £0.4 million (2017: £2.3 million), with the charge increasing in the second half as a result of the acquisitions of Stadium and Precision.

Tax and earnings per share

There was a tax charge in the period of £1.6 million (2017: charge £2.0 million) with an underlying tax charge of £5.3 million and a credit on items excluded from underlying profit of £3.7 million. The underlying effective tax rate of 16.8 per cent (2017: 20.0 per cent) reduced due to changes in US tax rates along with increased R&D tax credits. In the short to medium term we now expect an underlying effective tax rate in the high-teens. Basic underlying earnings per share increased by 49% to 16.2 pence (2017: 10.9 pence) and by 54% at constant currency.

Cash performance

The cash performance was good with underlying operating profit turned into good operating cash flow with cash conversion of 88 per cent. We sought to balance capital discipline with supporting growth and net capital expenditure and development expenditure totalled £18.9 million (2017: £14.7 million), equivalent to 1.4 times depreciation and amortisation (2017: 1.1 times). There was a working capital outflow of £2.1 million (2017: outflow £1.9 million) and net interest and taxation increased to £8.4 million (2017: £7.4 million).

Dividends

Given TT's strong organic performance, the successful integration of the acquisitions, and the prospects for the business, the Board is proposing a final dividend of 4.55 pence per share. This, when combined with the interim dividend of 1.95 pence per share, gives an increased total dividend of 6.50 pence per share for the full year (2017: 5.8 pence per share), an increase of 12 per cent. Payment of the dividend will be made on 17 May 2019 to shareholders on the register on 26 April 2019.

Pensions

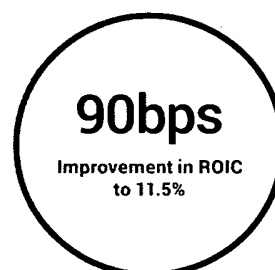
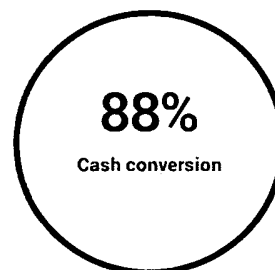
The Group has historically operated one significant defined benefit scheme in the UK and much smaller overseas defined benefit schemes in the US. With the acquisition of Stadium, two further UK defined benefit schemes have been added. Based on liabilities, the two Stadium schemes in aggregate are less than 7% of the size of the TT scheme. All of these schemes are closed to new members and are closed to future accrual.

The net accounting surplus under the Group's defined benefit pension schemes increased to £16.5 million (2017: surplus £11.9 million). The improvement in the position of the schemes was due to changes in the discount rate and mortality assumptions along with deficit contributions of £5.3 million made to the UK schemes. In aggregate these changes more than offset losses on scheme assets and the impact of consolidating the Stadium Group pension schemes, which had a deficit of £3.9 million.

In order to improve governance and oversight of the Stadium Group defined benefit pension scheme, as well as drive cost efficiency, this scheme will be merged into the TT scheme with effect from 29 March 2019. To align the funding positions of the two schemes, the outstanding deficit contribution payments due under the 1974 scheme's recovery plan of £3.4 million will be accelerated and paid into the scheme immediately prior to the merger. The next triennial valuation of the TT UK scheme is due as at 5 April 2019.

Given the material nature of the UK scheme, the Group has developed a comprehensive strategy to manage the financial risk associated with it. The strategy consists of:

- 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 while 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. At the current level there is no significant impact on the deficit of a 10bps fall in yields which would otherwise be circa £10 million increase if the hedge were not in place, 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; and
- 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 triennial valuation of the UK scheme as at April 2016 showed a deficit of £46.0 million against the Trustee's funding objective compared with £19.1 million at April 2013. The last triennial valuation of the Stadium schemes as at June 2017 was completed in 2018 and showed an aggregate deficit of £4.4 million. The next triennial valuation of the TT UK scheme is due as at 5 April 2019, and will incorporate the Stadium Group scheme.

The Company made deficit contributions of £5.3 million in 2018, of which £4.9 million related to the TT scheme and £0.4 million related to the Stadium 1974 scheme. For the TT scheme for the next three years, contributions of £5.1 million, £5.3 million and £5.5 million were agreed following the 2016 valuation. For the Stadium 1974 scheme, deficit contributions of £0.6 million per annum for the next six years. In order to align the

funding position of the two schemes prior to merger, the outstanding deficit payments totalling £3.4 million will be accelerated. Following the 2019 valuation, a further payment may become payable to fully align the funding of the two schemes.

The Company has set aside £2.6 million to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme.

During the year, the Company commenced a flexible retirement option exercise, which offers deferred members the ability to transfer their accrued benefits out of the scheme into another pension arrangement, giving the members increased flexibility and reducing the schemes liabilities and exposure to future inflation and longevity risk. The exercise will be concluded in the first half of 2019.

The assets and liabilities of the Group's UK defined benefit schemes are summarised below, alongside the total Group pension deficit:

£million	2018	2017
Fair value of assets	533.9	551.9
Liabilities	(513.1)	(536.8)
Surplus/(deficit)	20.8	15.1
– UK scheme		
Overseas schemes	(4.3)	(3.2)
Total Group surplus/(deficit)	16.5	11.9

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 22 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 £41.7 million (2017: net funds £47.0 million), with available undrawn committed and uncommitted facilities of £138.5 million.

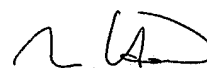
The main financial covenants in the long-term bank facilities restrict net debt to below 3.0 times EBITDA before non-underlying items and EBITDA before non-underlying items is required to cover net finance charges, excluding interest due on pension liabilities, by 4.0 times.

	Covenant	December 2018
Net debt/underlying EBITDA	<3.00	0.9 times
Underlying EBITDA/net finance charges	>4.00	22.4 times

Re-financing

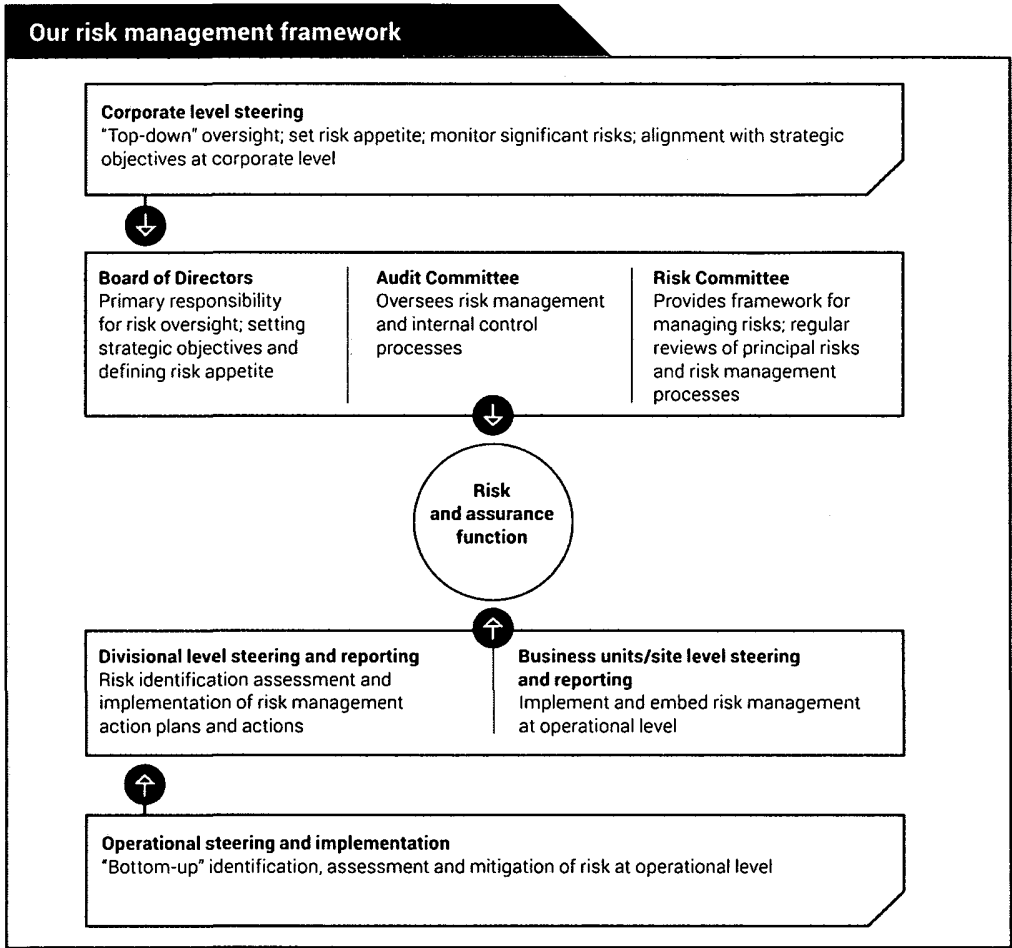
In December 2018 the Group entered into an agreement to extend its multi-currency revolving credit facility, taking the maturity date out from May 2021 to November 2023, removing short-term re-financing risk associated with any potential debt market disruption associated with Brexit. In addition, the facility size was increased from £150 million to £180 million.

The rationale for preparing the financial statements on a going concern basis is set out on page 54.



Mark Hoad
Chief Financial Officer
5 March 2019

Risk management for 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, including reviewing the effectiveness of risk management processes and controls. The Internal Audit function is operated under a directed outsource arrangement to enhance the levels of resource and expertise available to the Group in specific

areas, with its activities under the direction of the Executive Management Board. The Internal Audit 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. The Board acknowledges and recognises that in the normal course of business the Group is exposed to risk and that it is willing to accept a level of risk in managing the business to achieve its strategic priorities. Risk appetite is not static and as part of its risk management processes, the Board regularly considers its risk appetite in terms of the tolerance it is willing to accept in relation to each principal risk based on key risk indicators to ensure it continues to be aligned with the Group's goals and strategy.

Risk profile

At the direction of the Board, Executive management has performed a robust assessment of the principal risks facing the Group, taking into account those that would threaten our business model, future performance, solvency or liquidity, as well as the Group's strategic objectives. This process includes a "bottom-up" analysis of key risks at a divisional level. All principal risks identified by this process may have an impact on our strategic objectives within the next six to twelve months. Executive management and the Risk Committee perform 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 Group Risk Register. Risks included on the register are monitored closely by the Board, in terms of both prioritisation and mitigation strategies. It is recognised 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.

The assessment of principal risks during the year has identified that these risks have remained relatively stable in the year. This is reflected in the table of principal risks.

While there is an acknowledgement of continued uncertainty around geopolitical risk during 2019, the Group continues to take appropriate mitigating activities to address this and hence this risk is considered to be unchanged.

The Executive management and the Board do not currently anticipate any significant impact on the Group's trading following the UK referendum on Brexit, given that trade between the UK and the EU accounts for less than 10 per cent of revenues and material purchases. We recognise however the potential for disruption in the event of a disorderly exit and as a result the following steps have been put in place:

- we have a clear understanding of the extended supply chain where we buy in the UK but the inventory originates from the EU;
- where there is scope to re-source we are putting those actions in place, using alternative logistics routes or different distribution partners if possible;

- we have engaged our customers on whether or not they are buffering production requirements already or they would like us to support them in doing so;
- all our UK businesses have enacted extra purchases of between one and three months of inventory to protect customer demand requirements. We would expect this to get worked back out of our inventory by the end of 2019, but may impact cash conversion at the half year;
- our analysis indicates we would not be significantly affected by any EU workers in UK plants being forced to return to their home countries.

No significant direct impact from increased tariffs between the US and China is anticipated. We are actively talking to our customers to see how our global footprint can offer opportunities to mitigate their own risks in relation to increased tariffs.

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the period to December 2021, taking into account the Group's current position and the potential impact of the principal risks and uncertainties set out on pages 40–41 of the Strategic 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 2021.

The Directors have determined that the period to December 2021 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.

While 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 including assessing against covenant testing and facility headroom. 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.

While 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.

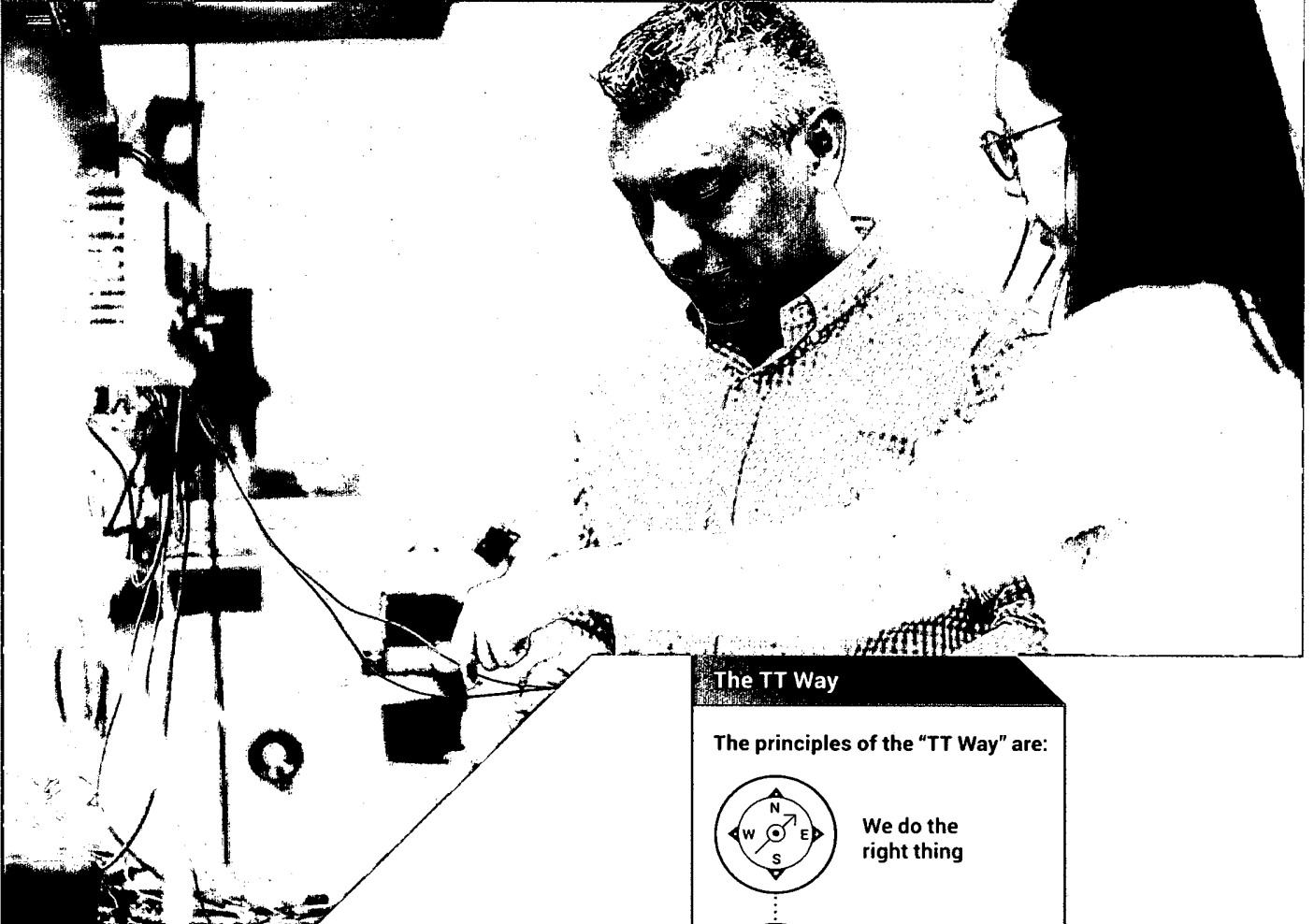
Risk management for the successful delivery of our strategy continued

Principal risks and uncertainties

Risk description	Potential Impact	Mitigating action	Change in the year
GENERAL			
General economic downturn Reduction in demand and orders	<ul style="list-style-type: none"> Decelerating sales growth affecting operating profit 	<ul style="list-style-type: none"> Monitor the wider economic conditions of our geographical markets Timely financial reporting to monitor performance and provide a basis for corrective action when required Ongoing optimisation of our cost base Management structures in place to enable a rapid response to changing circumstances 	 <p>Increased risk – increased market volatility and political uncertainty due to global trade wars and Brexit.</p>
COMMERCIAL			
Contractual risks Potential liabilities from defects in performance-critical products that often operate in extreme environments	<ul style="list-style-type: none"> Reputational impact Deterioration in customer relationships Liability claims Reduction in revenues, profitability and cash generation 	<ul style="list-style-type: none"> Quality control procedures and systems in place and appropriate levels of insurance carried for key risk Group guidelines on acceptable levels of contractual liability are reinforced 	 <p>Rebased following sale of Transportation division, overall risk profile considered reduced. Where divisional risk profile has increased due to new acquisitions, this is offset by additional employee training.</p>
Research and development Delay in new product development which is intended to support revenue growth	<ul style="list-style-type: none"> 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"> Close collaboration with key customers Active monitoring of costs and milestones Target R&D more effectively Implementation of standard project management disciplines 	 <p>No change</p>
OPERATIONAL			
People and capability Ability to attract and retain high-quality and capable people	<ul style="list-style-type: none"> Loss of key personnel Potential business disruption Breakdown of communication and misalignment 	<ul style="list-style-type: none"> Remuneration structure designed to support retention Succession planning processes embedded within the businesses Campaigns to increase performance and development of communication between managers and employees to ensure alignment to objectives Using a feedback loop utilising surveys to encourage regular objectives and performance discussions 	 <p>No change</p>

Risk description	Potential Impact	Mitigating action	Change in the year
OPERATIONAL continued			
Supplier resilience Potential failure of critical suppliers; product delivery delays; inability to meet customer commitments	<ul style="list-style-type: none"> Reduction in revenues, profitability and cash generation 	<ul style="list-style-type: none"> Regular review of key supplier financial health and product quality Monitoring of relevant commodity and precious metals pricing Review of spend patterns to identify opportunities 	 Increased risk. Whilst the historical supply chain risk is mitigated following on-going work, in the short-term high levels of demand have created component availability constraints across the industry.
IT systems and information IT security breaches or disruption, unauthorised access or mistaken disclosure of information	<ul style="list-style-type: none"> Reputational impact, business disruption and potential deterioration in customer relationships 	<ul style="list-style-type: none"> Regular analysis of cyber security and data management IT strategy reviewed by management and the Board Data security policies updated in 2018 Investment through recruitment of additional IT and Data specialists 	 No change – increasing level of cyber and data security threat offset by continued investment in these areas.
M&A and integration Realisation of financial benefit of acquisitions	<ul style="list-style-type: none"> Failure to realise the expected benefits of an acquisition or post acquisition performance of the acquired business not meeting the expected financial performance at the time acquisition terms were agreed could adversely affect the strategic development, future financial results and prospects of the Group 	<ul style="list-style-type: none"> Full financial and other due diligence is conducted to the extent as is reasonably achievable in the context of each M&A opportunity A detailed business case including forecasts is reviewed by the Board for each opportunity Integration risk and planning is reviewed and undertaken as part of every acquisition 	 No change
LEGAL			
Legal and regulatory compliance Intentional or inadvertent non-compliance with legislation including laws and regulations covering export control, anti-bribery and competition	<ul style="list-style-type: none"> 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"> Cross-division export compliance group established and anti-bribery programme in place Approach involves risk assessment, policy, training, review and monitoring Whistleblower process in place to ensure issues can be raised, investigated and managed 	 No change

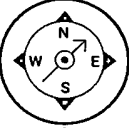

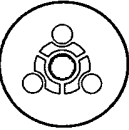


The "TT Way"



We promote the "TT Way", the culture we aspire to, alongside our strategy, to develop and guide the way we behave.

The TT Way

The principles of the "TT Way" are:

-  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... well

As a responsible global organisation with operations in many locations, TT Electronics is committed to making a sustainable, positive impact on the local communities in which we operate.

We do the right thing

We strive to always act with integrity, transparency and professionalism. We look to do the right thing by our people, customers, suppliers, shareholders and for our local communities, where we work to ensure our actions have a positive impact on society and the environment. Each of our sites is engaged in activities to take steps to support the local communities in which we operate. As an organisation, we hold ourselves to high ethical and business standards.

Working with the communities in which we operate

TT has a global footprint comprising 28 key sites including 10 R&D centres. At a number of our sites, we have been a local employer for many years, and we encourage our employees to play an active role in supporting the local community. In 2018, we ran 83 community and STEM events and our employees gave over 4,700 "hours for giving" to good causes.

Each of our sites choose a local charity to support throughout the year and in 2018 we raised c.£30,000 through our programme "Giving the TT Way". Activities include a wide range of initiatives including endurance events and cake sales in addition to direct fundraising. Our site in Corpus, US supported Corpus Christi Metro Ministries in 2018. Metro Ministries has a mission to help create a community that is free from hunger and homelessness by feeding, sheltering, and transforming lives. After several fundraisers including bake sales, a taco sale, furniture sales, raffles and donations by employees – the team raised almost \$2,000 which TT matched funding for.

Inspiring the next generation of engineers

Science, Technology, Engineering and Mathematics (STEM) are vital to the economic future, and STEM skills are more in demand than ever in the workplace. TT supports the development of future generations of engineers. We focus on supporting local STEM partnerships to promote careers in electronics and related fields. We also support initiatives that encourage more girls to study STEM subjects at school, and more women to enter our industry. In our Rogerstone site in Wales, pupils from three local primary schools were invited to visit our facility as part of our efforts to support STEM in our local communities and encouraging youngsters to take an interest in science subjects. The children had a tour of the shop floor and then a workshop on 3D printing to show the group items made on the 3D printer including a working guitar. In our Lutterworth, UK site, employees supported interview techniques sessions to help local students perfect their interviewing skills. Employees spent time conducting mock interviews with several students who greatly appreciated the experience of an interview, as often this is the only chance the students get to practice before they enter the world of work.

In June, we supported the International Women in Engineering Day which celebrates the role of women in Engineering. As part of this celebration, we profiled some of our female engineers on LinkedIn to promote careers in engineering. Local sites also held their own celebrations. For example at our Juarez site in Mexico, where women make up almost 50 per cent of the workforce, the team recognised female colleagues as valued team members with managers and supervisors meeting each female employee to thank them for their contribution and recognise the value they bring to the organisation.

We support and promote apprentice schemes across TT. We have apprentices in engineering, maintenance, operations, finance and business administration functions and the schemes are key to our talent management and succession planning.

Ethics

TT holds ethical standards in high regard, 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 via which 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 of 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 by our People, Social, Environment and Ethics Committee, under the leadership of our EVP HR which is supported by a dedicated Environmental, Health and Safety Committee. For any matters of particular concern, an Ethics Committee is convened on an "as needed" basis, constituted from members of the Executive Management Board.

The “TT Way” continued

Human rights

TT 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 Responsible Business Alliance (formerly the Electronics Industry Citizenship Coalition) Code of Conduct (see below) and covers all workers including permanent, temporary, migrant, student, contract, direct and indirect. Our Code details expected labour standards and is supported by our Modern Slavery policy which can be found on our website: www.ttelectronics.com.

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.

Mindful of our environment

We are mindful of the environment in which we operate and monitor greenhouse gas emissions so we are aware of the impact we have on the environment. We engage employees to promote responsible environmental practices. In Suzhou, China, this led to the team choosing to arrange a tree planting event as part of the site’s 2018 charity activities. Colleagues worked together to plant more than 140 trees on the Suzhou Campus to create a better working environment.

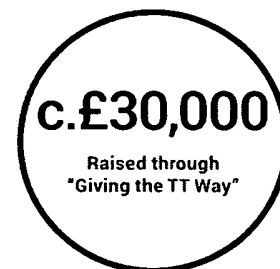
For the year ended 31 December 2018, the Group’s greenhouse gas emissions (detailed below) were calculated using the latest factors for converting energy usage to carbon dioxide equivalent emissions published by DEFRA and the International Energy Agency in 2018. The acquisitions of Stadium and Precision are included in the 2018 calculations which alongside increased operating hours in some of our sites have resulted in an increase in electricity usage during the year.

Carbon dioxide equivalent (tonnes)

	2018	2017
Emissions resulting from operations and combustion of fuel ¹	1,042	851
Emissions resulting from the purchase of electricity, heat, steam or cooling	26,497	25,308
Total	27,539	26,159

1. These figures represent all material emissions. Other 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.

The Group has chosen to adopt emissions per £1 million of revenue as its intensity ratio. For 2018, emissions were 64.1 tonnes of carbon dioxide equivalent per £1 million of revenue (2017: 72.6 tonnes).



Compliance

TT places a strong emphasis on business integrity. We ensure that we operate in an environment in which innovation can flourish within a compliance and risk-focused culture.

During 2018, we have continued to work 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. Given the Group's focus on defence and aerospace, we have continued to develop and enhance our training programmes and policies in the areas of export controls. This programme of work complements an additional focus on enhancing cyber and information security policies and controls during 2018 together with compliance with the General Data Protection Regulation, which was introduced across the EU in 2018.

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. A copy of our Gender Pay Gap report can be found on our website www.ttelectronics.com. Consideration is always given to human rights principles as part of the Group's working practices.

Modern slavery

TT is committed to acting ethically and with integrity in all of our business dealings. As part of this commitment, TT has adopted a zero-tolerance approach to modern slavery, whether in the form of servitude; forced, bonded, or indentured labour; slavery; human trafficking or any other activity that amounts to an unreasonable restriction on the free movement of workers.

Our business model is based on providing our customers with engineered products, services and expertise for performance-critical applications. In meeting our customers' requirements, we operate procurement programmes through global supply chains, involving a wide network of suppliers and distributors. It is recognised that within this structure (as with all other participants operating in our business sector), the potential exists for the human rights of individual workers to be violated. The Board has adopted a policy on modern slavery, setting out the standards we expect from all our employees, contractors, suppliers, distributors and other business partners. A copy of our modern slavery statement can be found on our website www.ttelectronics.com

Our people



**Our people deliver
our leading electronic
expertise. They are
the foundation of TT.”**

Richard Tyson
Chief Executive Officer

Engaging our people

It is important to us that our employees, at all of our sites globally, feel part of our BE TT strategy, building expertise in TT. Engaged employees are critical to our success; our employees make TT the organisation it is today.

We ask employees to participate in an employee engagement survey each year to gather feedback on their views so we can constantly learn and adapt to make TT a great place to work. Our response rate was 85%, almost reaching last year's record of 86.7% and well above the Best Companies Ltd benchmark. For the first year, we are now in what Best Companies Ltd call their "One Star" companies for engagement.

We communicate frequently and openly with our employees, and we have received strong feedback from employees, telling us they know how their role contributes to the strategy. We continue to promote the "TT Way", our aspired to culture that is open, transparent and collaborative. At all levels, we encourage and support a high degree of openness and equality which will continue to make TT a great place for our employees to work. We strive to maintain engagement with our employees at all stages, from application through to retirement. We approach interaction with openness, honesty and integrity, building strong relationships on trust. Collaboration across the Group helps us share our learnings and expertise, improving the way we operate and serve our customers.

Many of our engagement activities are run locally by our sites to recognise achievements and promote the TT Way behaviours. In our Mexicali site in Mexico for example, the team held an annual event to recognise all 91 employees who had a perfect attendance record during the year to thank them for their commitment and continued support. Each employee was presented with a polo shirt to mark the event, a recognition diploma and monetary reward.

We promote employee wellbeing and health and safety at the workplace is at the heart of our TT Way behaviours. As an example, during the year, our Kuantan site in Malaysia launched its 2018 Safety Day Campaign with the slogan: "Proud to be safe! I wanna get home safely!" along with a government sponsored occupational health programme – SOHELP – or Systematic Occupational Health Enhancement Level Programme. At the launch event employees took part in health screening, a safety quiz, donated blood and attended a personal protective equipment exhibition.

We have a "BE Inspired" programme to recognise teams and individuals that excel in demonstrating the "TT Way" behaviours. In 2018, we received over 2,400 nominations for these awards, over 40 per cent more nominations than in 2017, demonstrating high levels of engagement and the desire of our employees to recognise and support their colleagues.

Our employees

Our employees are our expertise. Through training and developing our employees and working together, we unlock the potential of TT.

We have 5,067 employees across TT, 52 per cent of whom are female, and 48 per cent of whom are male.

The table below provides a detailed breakdown.

Employees (full time equivalent)	Male	Female
Main Board of Directors	6	1
Executive Management Board (EMB)	6	1
Senior Managers (Ex EMB)	26	5
Barbados	23	78
China	455	565
Malaysia	84	454
Mexico	543	617
Singapore	6	4
Sweden	9	3
Tunisia	16	34
United Kingdom	949	624
USA	304	272
Other	21	6
Total	2,410	2,657

Creating a positive working environment at all of our sites is of paramount importance to us at TT. We strive to build a supportive, diverse and engaging place to work, while nurturing a high-performance culture across the Group, built around the "TT Way".

Training and developing our people

"Building expertise" is at the centre of our growth strategy and we are committed to growing the expertise of our employees. Personal development is important to TT as well as furthering individual careers.

We continue to invest and prioritise the training and development of our people, equipping people with the right skills to do their jobs well, enabling them to unlock their potential and the potential of TT.


Alongside Group-wide training and development initiatives, we provide a range of specific and tailored training to meet business needs. Our master lean practitioner (MLP) training has ensured we promote our operational efficiency improvements and our operational excellence practices are now well embedded in our organisation. Our MLPs are responsible for training new cohorts of MLPs, sharing skills and best practice among our organisation.

We will continue to develop and engage our people, who have the expertise to put our customers ahead. With the continued commitment of our employees, we have increasingly worked as "One TT" and shaped a successful performance in the year.

The 2018 Strategic report, from page 1 to page 47 has been reviewed and was approved by the Board of Directors on 5 March 2019.



Richard Tyson
Chief Executive Officer



Mark Hoad
Chief Financial Officer

Chairman's introduction to governance



One of the most satisfying features of the Group's performance in 2018 is the fact that growth has been achieved through a combination of organic margin progression and targeted acquisitions."

Neil Carson
Chairman

Corporate governance reform has once again been high on the board agenda for UK listed companies, as the Financial Reporting Council published the revised UK Corporate Governance Code ("the Revised Code") in July 2018.

A key feature of these reforms is the concept of improved standards of practice and reporting, with a particular focus on stakeholder engagement. From a TT Electronics perspective, this has been a key topic of discussion for the Board in 2018, as we continue to build on our governance processes with a view to promoting the long-term success of the Group.

One of the most satisfying features of the Group's performance in 2018 relates to the fact that growth has been achieved through a combination of organic margin progression and targeted acquisitions. On the M&A front, we have built upon the sale of the Transportation division

in 2017 by successfully completing two acquisitions in 2018: Stadium Group plc (a UK headquartered AIM-listed company) and Precision, Inc. (a US company, headquartered in Minneapolis). The Board was highly supportive of both of these acquisitions on the basis that they aligned closely with the Group's strategic focus of transitioning into higher-margin business sectors, whilst benefiting from a technology profile which was complementary to our core operations. The Stadium transaction, in particular, required a significant amount of Board-level oversight, given its structure as a recommended cash offer under the UK Takeover Code. The Board is delighted

that the Group was able to secure these acquisitions, and the highly capable teams that came with them, and looks forward to the contribution that these businesses can deliver in exciting growth sectors such as the "Internet of Things" and precision electromagnetic solutions.

As outlined in the Strategic report, M&A is only partly responsible for the growth story achieved in 2018, with operational improvement having been delivered across the Group's business units. The Board has been particularly pleased with the transformation in performance achieved by our GMS Division during 2018, which has delivered significant growth and margin improvement. As part of our commitment to gaining a deeper understanding of the Group's core operations, in October 2018 the Board visited the GMS Division's facility in Suzhou, China, where the management team was able to showcase its world-class manufacturing capability, engineering expertise and deep customer relationships. It was particularly satisfying to witness at first hand the cultural shift achieved by the business in the past couple of years, which was exemplified by the strong focus on BE Lean and employee engagement. During the same visit to China, members of the Board also attended the opening of the Stadium Design Centre in Shenzhen and toured the manufacturing site in Dongguan, both of which will be key to the Group's future success now that the integration of Stadium's business into the wider TT Group has been completed. Based on the success of these visits, the Board has made a commitment to ensure that at least one Non-executive Director attends a TT manufacturing site each year (independent of any meetings organised for the Board as a whole), which will allow the Non-executives to provide individual feedback on stakeholder engagement issues on a periodic basis (as recommended by the Revised Code), with a particular focus on the "employee voice".

In relation to the composition of the Board, I can confirm that since Jack Boyer and Alison Wood joined the Company as Non-executive Directors in 2016, no changes have been made to the overall structure of the Board, which has provided a period of stability and increased focus on strategic priorities.

However, as we have disclosed in previous annual reports, in August of this year, Mike Baunton will have served as a Non-executive Director of the Company for nine years in total, at which point he will not be considered "independent" for the purposes of the UK Corporate Governance Code. As such, we are in the process of conducting a search for his replacement, which we intend to conclude well in advance of Mike's departure. On behalf of the Board, I would like to express my appreciation for Mike's service to TT and his significant contribution to the Group's strategic and operational development throughout that time. We will, of course, provide an update on this recruitment activity once completed.

In addition to the points raised above, I am pleased to report that the Board has maintained a strong focus on its wider governance responsibilities throughout the past year, which includes the delivery of the Group's strategic priorities and monitoring performance in key areas of operations, such as health & safety, the BE Lean operational efficiency programme, talent management, the improvement in business development capability, R&D initiatives and M&A planning. Whilst we have taken the decision not to repeat the external evaluation exercise first conducted in 2017, there has been a continuous focus throughout the last financial year on how the Board can better support the business as it strives to meet its growth agenda, which culminated in an in-depth Board evaluation exercise at the end of the year. The outputs of this exercise are summarised on page 60. As described above and elsewhere in this report, the Board has paid particular attention to the requirements of the Revised Code in scoping its future activities, and has an action plan to address this new governance regime in 2019. Recognising that the Revised Code only came into force following the end of the 2018 reporting period, I can confirm that in relation to its governance processes, the Group has complied fully with the requirements of the existing UK Corporate Governance Code throughout 2018 and expects to be fully compliant with the Revised Code during the current financial year.

Diversity 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. As stated previously, we do not advocate a forced approach to diversity at any level of the organisation. Nevertheless, we believe that the steps we have taken previously to change the balance of the Board have resulted in a positive mix of skills and competencies necessary to meet the strategic and operational needs of the business in the future, and we will strive to maintain progress on this front going forward.

On the theme of the importance of "people", I was delighted to see the outputs from the 2018 Employee Engagement Survey, supported by "Best Companies", which once again revealed an exceptionally high response rate of 85per cent across all Group employees and, for the first time, TT having attained a highly acclaimed "one star" rating. The Board recognises this considerable achievement as providing confirmation of the cultural shift that has taken place across the Group's operations in recent years (which has been a key area of management attention) as well as how our people feel about working at TT. The Board will remain focused on driving consistent excellence of engagement and employee satisfaction across all parts of the business.

In conclusion, I take the view that my priority as Chairman is to ensure that the Board remains focused on those strategic priorities where it can add most value. I am encouraged that we have made significant progress on this front during 2018 and remain confident that we are well placed to maintain that progression in the coming years.

Neil Carson
Chairman

A blend of skills and experience

Board of Directors and Company Secretary



Neil Carson OBE

Chairman
Joined: 2015

Relevant skills and experience: Neil has a proven track record of delivering growth as a leader of a FTSE 100 science/R&D based company, Johnson Matthey, reinforced by over 30 years' experience of operations management, technical innovation and strategic planning, which are highly complementary to the Company's needs. Neil has also had exposure to a wide range of industry sectors, having served on the boards of a variety of UK listed companies and Government bodies, including Amec Foster Wheeler plc, Paypoint plc, and the Prince of Wales' Corporate Leaders Group on Climate Change, of which he was a founder member.

Other current appointments: Honorary President of SCI (the Society of Chemical Industry), non-executive chairman of Oxford Instruments plc, and a non-executive director of TI Fluid Systems plc¹ (where he is also deputy chairman, senior independent director and chairman of the remuneration committee).

1. Neil will cease to be a director of TI Fluid Systems in May 2019 and he will stand for election as a director of Royal Dutch Shell plc at their AGM to be held in May 2019.



Richard Tyson

Chief Executive Officer
Joined: 2014

Relevant skills and experience: Richard has developed an extensive portfolio of managerial and operational capabilities over a 20 year career with a range of leading aerospace and defence companies, including over six years as a member of the Executive team and President of Aerospace & Security division of Cobham plc. Prior to that he was responsible for TRW Aeronautical Systems' (formerly part of Lucas Industries) European aftermarket business. Richard has significant experience of leading M&A and business transformation activities, as well as driving innovation in high technology businesses.

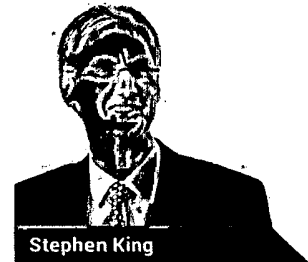
Other current appointments: Non-executive director of the Vitec Group plc and Governor of St Swithuns' Independent School for Girls in Hampshire.



Mark Hoad

Chief Financial Officer
Joined: 2015

Relevant skills and experience: Mark has a deep understanding of finance and operational activities which he has acquired during a career spent in senior finance/management roles with FTSE listed companies, including as group finance director of BBA Aviation plc a FTSE 250 company operating in the aerospace domain. A chartered accountant, Mark's experience includes several years working in a variety of management roles at RMC Group plc in Continental Europe and Australia, as well as a strong focus on driving business transformation in the US.



Stephen King

Senior Independent Non-executive Director
Joined: 2011

Relevant skills and experience: Having served as a CFO on several FTSE 250 boards, Stephen has a wealth of finance and corporate governance experience across a number of industry sectors. Stephen is a chartered accountant and his previous executive responsibilities on the board of an investment trust company provides the Board with particular insight in the areas of M&A/financing, risk, audit and regulation at a PLC level. Stephen was previously group finance director of Caledonia Investments plc and De La Rue plc, and a non-executive director of The Weir Group plc. He has also held senior finance positions with Aquila Networks plc, Lucas Industries plc and Seaboard plc, and was also a non-executive director of Camelot plc and Bristow Group Inc.

Other current appointments: Non-executive director on the board of Chemring Plc and BBA Aviation plc.



Key

- (N) Nominations Committee
- (C) Corporate Responsibility Committee
- (A) Audit Committee
- (R) Remuneration Committee
- (RI) Risk Committee
- () Chairman of the Committee



Michael Baunton CBE

Independent Non-executive Director
 Joined: 2010

Relevant skills and experience: Michael has held senior leadership positions across a range of blue-chip engineering organisations, operating primarily in the Automotive and Industrial sectors across multiple jurisdictions. Michael has developed wide-ranging expertise in the areas of supply chain management, operations and health & safety, which are strongly aligned with the Company's growth strategy. He was awarded a CBE in 2004 for services to the automotive and engineering industries in the UK. He has previously held senior executive roles with Caterpillar Inc, Perkins Engines Company Limited and Tenneco Inc.

Other current appointments: Chairman of the board of SMMT (the Society of Motor Manufacturers and Traders) Industry Forum Limited and non-executive chairman of VTL Group and Sertec Corporation Limited.

(A) (N) (R) (C)



Jack Boyer OBE

Independent Non-executive Director
 Joined: 2016

Relevant skills and experience: Jack has a background in corporate finance, investment and M&A, which he has applied in bringing a number of business ventures through to operational maturity in the engineering, telecommunications and biotechnology sectors. Jack's extensive experience of innovation and the exploitation of technology, in the private sector and through working with Government bodies, are highly relevant given the Company's transformational agenda. Awarded an OBE in 2015, Jack was formerly a non-executive director of Mitie Group plc and Laird plc, and chairman of Ilika plc. He was also an investment banker at Goldman Sachs and strategy consultant at Bain & Co.

Other current appointments: Chairman of AIM-listed Seeing Machines Limited, Chairman of the Academies Enterprise Trust, Chair of the University of Bristol, and Member of the Board of the Henry Royce Institute for Advanced Materials.

(A) (N) (R)



Alison Wood

Independent Non-executive Director
 Joined: 2016

Relevant skills and experience: Alison's background is in leading business development, M&A and strategic planning across several blue-chip UK companies, particularly in the Defence sector. In addition, during her time as the Remuneration Committee chair of several FTSE listed companies, she has gained an invaluable insight into the development and execution of remuneration policy, which is a key component of the Company's growth ambitions. Alison was formerly global director corporate development & strategy for National Grid plc and before that, group strategic development director for BAE Systems plc. Alison has previously held non-executive directorships at e2v technologies plc, BTG plc and THUS plc.

Other current appointments: Non-executive director and chairman of the remuneration committee of Costain Group plc, Cobham plc and the British Standards Institution.

(R) (A) (N)



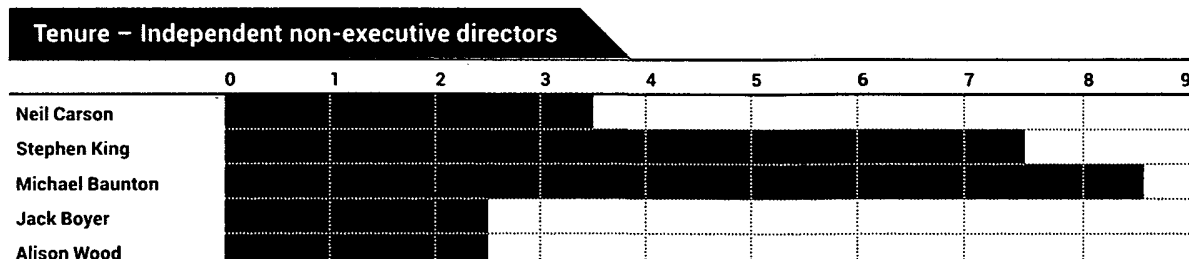
Lynton Boardman

General Counsel and Company Secretary
 Joined: 2012

Relevant skills and experience: A qualified solicitor, having practised with Simmons & Simmons, Macfarlanes and Burges Salmon LLP. Formerly head of legal (Europe, Middle East and Africa) at Syngenta Crop Protection and then general counsel and company secretary of QinetiQ Group plc from 2002 to 2011.

(C) (RI)

A blend of skills and experience continued



Board and Committee meeting attendance

Attendance 2018	Board	Audit Committee	Nominations Committee	Remuneration Committee
Neil Carson	7 of 7	–	2 of 2	4 of 4
Richard Tyson	7 of 7	–	–	–
Mark Hoad	7 of 7	–	–	–
Michael Baunton	7 of 7	4 of 4	2 of 2	4 of 4
Jack Boyer	7 of 7	4 of 4	2 of 2	4 of 4
Stephen King	7 of 7	4 of 4	2 of 2	–
Alison Wood	7 of 7	4 of 4	2 of 2	4 of 4

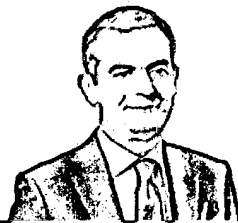
The Chairman and Chief Executive Officer

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

Roles and responsibilities

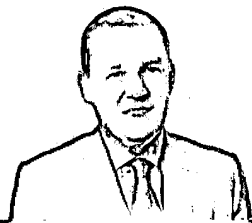
Chairman	Chief Executive
<p>Maintains responsibility for:</p> <ul style="list-style-type: none"> the leadership and effectiveness of the Board, and for setting its agenda; ensuring all Directors receive accurate, timely and clear information on financial, business and corporate matters so they can participate in Board decisions effectively; facilitating the effective contribution of Non-executive Directors; ensuring constructive relations between Executive and Non-executive Directors; ensuring effective communication with shareholders; ensuring the performance of individual Directors, the Board as a whole, and its Committees are evaluated at least once a year. 	<p>Maintains responsibility for:</p> <ul style="list-style-type: none"> the operations of the Group; developing Group objectives and strategy, having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders; successful implementation and achievement of strategies and objectives, as approved by the Board; managing the Group's risk profile, including its health and safety performance; ensuring the Group's businesses are managed in line with strategy and approved business plans, and complying with applicable legislation and Group policy; ensuring effective communication with shareholders; setting Group human resource policies, including management development and succession planning for the senior executive team.

Executive Management Board



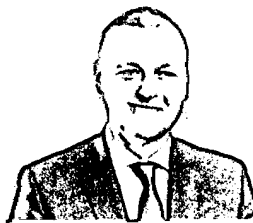
Richard Tyson

Chief Executive Officer
Full biography on page 50.



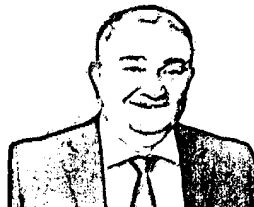
Mark Hoad

Chief Financial Officer
Full biography on page 50.



Lynton Boardman

General Counsel and Company Secretary
Full biography on page 51.



Tom Garvey

EVP Power Electronics
Joined: 2016

Relevant skills and experience:
Tom has more than 20 years' experience in the aerospace and defence industry, having worked with a number of TT's customers including Rolls Royce, Goodrich, Thales and (in his most recent role) Cobham plc. Tom has experience setting and executing growth plans and developing customer-focused product and technology roadmaps.



Michael Leahan

EVP Global Manufacturing Solutions
Joined: 2017

Relevant skills and experience:
Michael has over 30 years' experience in the aerospace and defence industry. Michael previously held senior positions at Marotta Controls, Lucas Aerospace and Fairchild Controls.



Sarah Hamilton-Hanna

EVP Human Resources
Joined: 2019

Relevant skills and experience:
Sarah brings over 16 years of leadership experience across Global HR, business transformation, talent and organisational development, and acquisition integration. Sarah joined us from Tate and Lyle, where she led Global HR for the Food & Beverage Solutions division. Previously, Sarah spent 14 years with Associated British Foods.



Tim Roberts

EVP Sensors and Specialist Components
Joined: 2008

Relevant skills and experience:
Tim has led a number of TT divisions over ten years with the Company. Prior to joining TT, Tim was strategy director for Spirent Communications plc.



Charlie Peppiatt

EVP IoT Solutions
Joined: 2018

Relevant skills and experience:
Charlie joined TT Electronics in April 2018, following the acquisition of Stadium Group plc where he was Chief Executive Officer since June 2013. Previously, Charlie was Vice President of Global Operations for Laird Technologies and he has held senior roles in the USA, Canada, Europe, India and Asia.

Relations with stakeholders

Customers and Suppliers	Society
<ul style="list-style-type: none"> • The key interactions with customers are primarily channelled through the Divisional Executive Vice Presidents ("EVPs") and their management teams, supported by the CEO and CFO. • The CEO undertakes regular meetings and engages with senior executives at our key customers throughout the year. • In July 2018, the CEO, CFO and other members of the EMB met with a range of customers and key suppliers at the Farnborough Air Show. • During the year, we held sales and leadership events which were attended by a number of our customers. • The wider EMB team supports customer initiatives wherever possible, to maintain a current understanding of the challenges faced by the customer base and how TT is best placed to provide an effective response. • The CEO reports key customer/supplier initiatives to the Board at each scheduled meeting. 	<ul style="list-style-type: none"> • TT is a member of the Confederation of British Industry (CBI) whose purpose is to help businesses create a more prosperous society. • A designated Non Executive Director sits on our CSR Committee. The EVP HR reports and highlights key areas or themes covering TT's engagement with society at each Committee meeting. • Our CSR objectives are focused around supporting our local communities and charitable and community activities which 'Build Expertise' in science, technology, engineering and maths (STEM). • We support initiatives that encourage more girls to study STEM subjects and more women to enter our industry. • During the year, the CEO and CFO alongside other EMB and senior leadership members attended a charity event with The Salters' Institute. The Salters' Institute is dedicated to fundraising and organising activities to support young people interested in pursuing careers in STEM. • The CEO undertook a charity bike ride from London to Brighton, raising over £2,000 for The Salters' Institute to help inspire young people in science. • We encourage our employees at all our sites to play an active role in supporting their community and local charities. Further details on the way we work with the communities in which we operate can be found on page 43. • In 2019 we will be supporting The Salters' Institute with a science festival in partnership with a local university to encourage girls to take an active role in STEM subjects.

Q
Case study



Board visit to sites in China

The Board meeting in October 2018 was held in Suzhou, China to provide the full Board with the opportunity to visit our GMS manufacturing site. The Board was welcomed by the local senior management team and spent time understanding the manufacturing processes and meeting local employees.

The Chairman officially opened the IoT Solutions Advanced Technology Centre in Shenzhen, China in October 2018, accompanied by other members of the Board. As part of the same visit, members of the Board took the opportunity to meet with the Leadership team in Dongguan, which became part of the Group following the acquisition of Stadium in April.

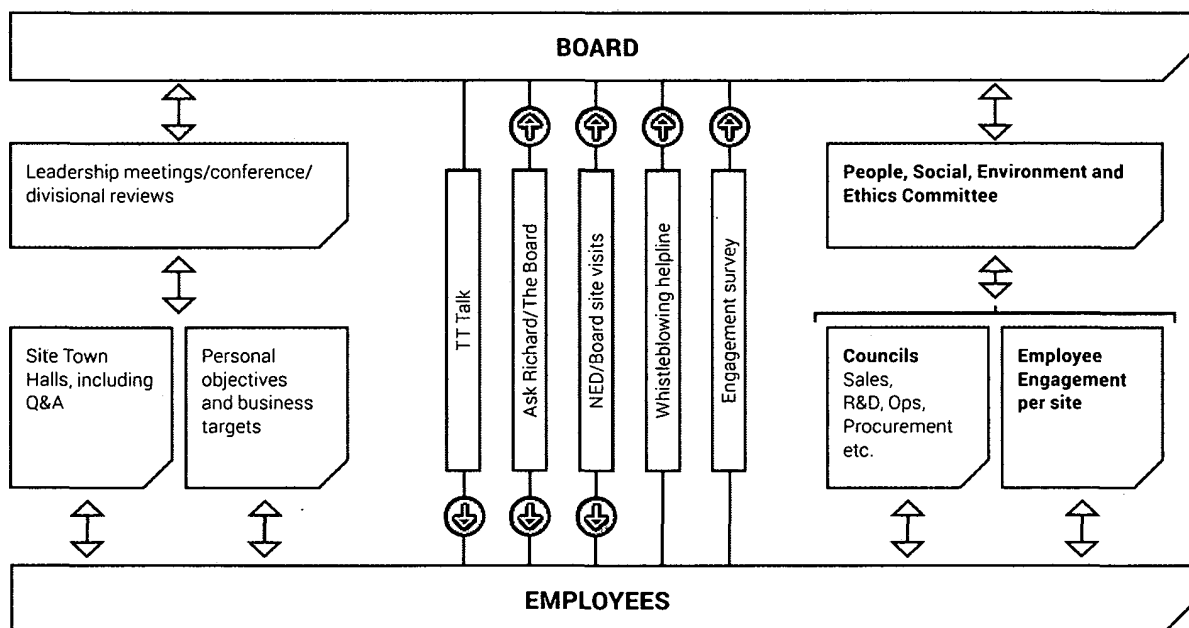
Employees

- The CEO and the CFO visit the majority of the Group's manufacturing sites during the course of each year, and this year visits were scheduled to coincide with the acquisitions of Stadium and Precision. During site visits employees are encouraged to ask questions through "town-hall-style" meetings. This is in addition to the regular town-hall meetings that take place at site level throughout the year.
- The TT quarterly magazine, "BE TT News", is used as a means of increasing employee engagement.
- The Employee Engagement survey runs across all TT sites globally and the results are fed back to the Board and progress is reviewed year on year. Each site identifies key focus areas from the results with its people and sets out an action plan.
- The Chairman addressed the annual Leadership Conference in March 2018. Non-executive Directors are also invited to attend the event.
- The Board meeting in October 2018 was held at the TT site in Suzhou, China. See more details on the Board's engagement with our workforce during this trip in the case study on page 55.
- For 2019 and beyond, at least one Non-executive Director will visit a TT manufacturing site each year (independent of any meetings organised for the Board as a whole) to allow Non-executives to provide individual feedback on stakeholder engagement issues to the Board.

Investors

- The CEO and CFO meet with institutional investors immediately after publication of the annual and interim results, and on an ongoing basis as required.
- Investor roadshows were held over a total of 15 days in respect of the annual and interim results and were supplemented with ad hoc roadshow events between the results announcements to maximise potential interactions with investors.
- Feedback on Investor Relations issues is reported to the Board so that all Directors develop an understanding of major shareholders' views on the Company.
- The Company's brokers provide briefings on shareholder opinions, and compile independent feedback from investor meetings.
- Information offered at analysts' meetings, together with our financial press releases, is made available on the Group's website.
- The Directors use the Annual General Meeting to communicate with both institutional and private investors.
- In November 2018, the Company held a Capital Markets Day which was attended by a wide cross-section of TT's institutional shareholder-base as well as the Chairman. The event presented an opportunity to outline the Group's technical capabilities and strategic focus in a targeted manner.
- The Group conducted an Investor Relations Audit in 2018, which assisted the Board in gaining a deeper insight into the investment perspectives of both existing institutional shareholders and potential investors.

The chart below provides an overview of the envisaged approach to engage with our employee stakeholders



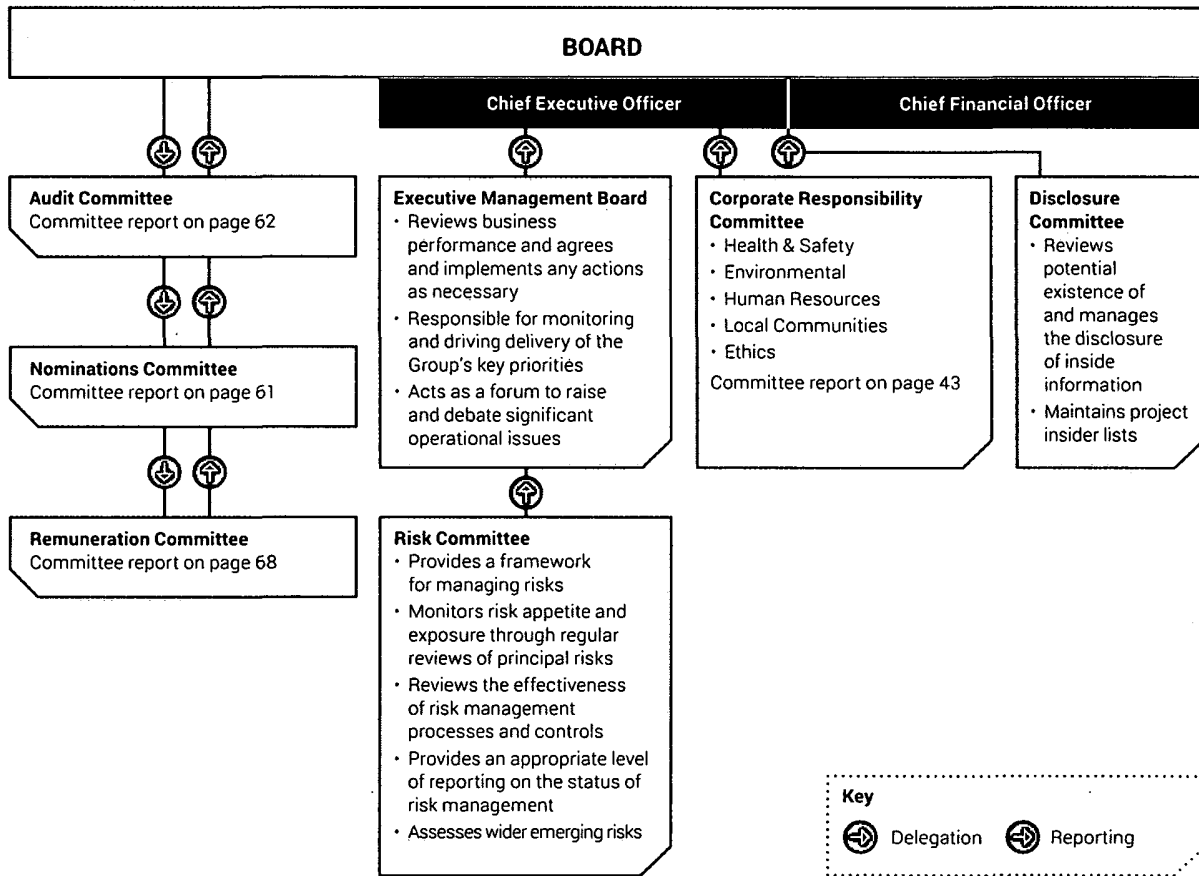
Leadership

Leadership Structure

Details of TT's Board of Directors are set out on pages 50 and 51 of this report. The chart below provides 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 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 UK Corporate Governance Code.

The Board has established a number of Committees, each with its own delegated authority defined in terms of reference. The Board reviews these terms periodically (the last occasion being in November 2018), and 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.



UK Corporate Governance Code

Compliance Statement

TT is committed to achieving and maintaining the highest standards of corporate governance. We have complied with the main and supporting principles of good corporate governance set out in the UK Corporate Governance Code 2016 ('the Code') throughout the year ended 31 December 2018. The Code is available

to view at the website of the Financial Reporting Council, www.frc.org.uk. Details and explanations of the application of the principles of corporate governance are set out in the following pages of this Governance Code. The new UK Corporate Governance Code ('the Revised Code') was published in July 2018, and will be applicable to the Company from 1 January 2019 onwards. We expect to

be fully compliant with the Revised Code during the 2019 financial year. We have expanded the remit of the CSR Committee to cover a number of the requirements of the Revised Code (including stakeholder engagement activities), with the result that the Committee was renamed as the People, Social, Environment and Ethics Committee in early 2019.

The Board

Subject to the Company's Articles of Association, UK legislation and any

directions given by special resolution, the Board manages the Company's business.

The Board's main roles are to provide leadership to the management of the Group, and to determine the Group's strategy and ensure it 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 as set out on page 66.

During 2018, the Board comprised two Executive Directors (Richard Tyson and Mark Head) and five Non-executive Directors (Neil Carson, Stephen King, Michael Baunton, Jack Boyer and Allison Wood), who all served throughout the year. Stephen King served as Senior Independent Non-executive Director throughout 2018. We provide full details of each Director's Board and Committee meeting attendance on page 52 and directors' biographies, including the Committees they serve on and chair, can be found on pages 50 and 51.

At the time of his appointment as Chairman, Neil Carson was considered to be independent in accordance with the provisions of the Code and is considered to have been independent throughout his term of office. All the remaining Non-executive Directors are also considered to be independent as defined by the Code.

Members of the Executive Management Board attended one of these dinners. The Non-executive Directors meet, without the Executive Directors present, at the end of each scheduled Board meeting, as a standing agenda item.

Each board meeting during 2018 discussed strategic issues together with operational, financial, human resources, legal, governance and investor relations items. The main events in the board calendar are the approvals of the half year and full year results, the Board site visit and the review of the five-year strategic plan (which take place around the autumn) and the approval of the budget towards the end of the year.

AGM sets out details of the key areas of contribution made by each of the Directors in providing leadership to the Company. Board and Committee meetings are scheduled in line with the Company's financial calendar, 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. We hold additional meetings as and when required. During 2018, one such meeting was held to approve the final terms of the recommended offer for Stadium Group plc. The Board has held two principal meetings to date during 2019.

Leadership continued

BOARD ACTIVITIES IN 2018

During the financial year, the Board discussed and implemented the following key actions:

<p>January</p> <ul style="list-style-type: none"> • Preliminary review of the 2017 Financial Results • Preliminary review of the Annual Report content • Reviewed the Stadium Acquisition progress • Board Evaluation Exercise • Approved the Group's 2018 Modern Slavery statement 	<p>August</p> <ul style="list-style-type: none"> • Approved the Interim Financial Results • Approved the Interim Dividend • Completed the fair, balanced and understandable analysis and reviewed going concern of the Group • Presentation by EVP Global Manufacturing Solutions on business development and sales initiative • Reviewed the Group's Risk Register • Capital Markets Review in association with the Group's advisers • Received the results of the Investor Relations Audit
<p>March</p> <ul style="list-style-type: none"> • Reviewed and approved the 2017 Financial Results • Approved final dividend • Assessed going concern of the Group and completed fair, balanced and understandable analysis of the Annual Report • Final review of the Annual Report and AGM ancillaries • Reviewed progress of the Stadium and Precision acquisitions • Reviewed the GDPR regulations and framework 	<p>October</p> <ul style="list-style-type: none"> • Reviewed and approved the Group's insurance cover • Reviewed the Group capital structure • Reviewed the Five-Year Strategic Plan • Received an update on the Group's IT strategy from the Group's Chief Information Officer • Feedback received and reviewed from the post half-year results Investor Roadshow • Analysed and discussed the new UK Corporate Governance Code reforms
<p>May</p> <ul style="list-style-type: none"> • Analysed and discussed the AGM proxy voting results • Approved the May 2018 Trading Update • Reviewed the Group's Risk Register • Reviewed the progress of the Precision acquisition and the Uniroyal joint venture project • Received the feedback from the post-results Investor Roadshow 	<p>November</p> <ul style="list-style-type: none"> • Reviewed and approved the 2019 budget • Conducted Conflicts of Interest review • Talent review and proposals for succession planning • Presentation by Group Head of Tax and Treasury • Reviewed the Group's Risk Register • Agreed the process for internal board evaluations • Reviewed the 2019 plan for the Company in relation to the new UK Corporate Governance Code reforms • Preliminary results of the 2018 Employee Engagement Survey
<p>July</p> <ul style="list-style-type: none"> • Presentation by EVP Power Electronics on Value Added Product Solutions • Reviewed the progress of the GDPR implementation project 	

Directors' interests

The Directors of the Company at 31 December 2018 held interests (directly or through their connected persons) in the following numbers of the Company's Ordinary shares of 25 pence each on 1 January 2018, 31 December 2018 and 3 March 2019:

	3 March 2019 Ordinary shares	31 December 2018 Ordinary shares	1 January 2018 Ordinary shares
Neil Carson	190,000	190,000	150,000
Richard Tyson	560,896	560,896	186,756
Mark Hoad	454,438	454,438	40,000
Stephen King	100,000	100,000	100,000
Michael Baunton	104,598	99,598	81,554
Jack Boyer	71,588	71,588	40,500
Alison Wood	–	–	–

The interests of the Directors in the Company's share options and Long-Term Incentive Plan are shown in the Directors' Remuneration report on page 73.

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 they consider 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.

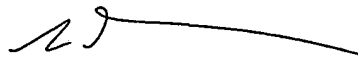
The authorisation of any conflict, and the terms of authorisation, may be reviewed at any time and, in accordance with best practice, we conduct a review of Director conflicts of interest annually.

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 they sit on.

Going concern

The Directors have reviewed the budgets for 2019 and the projections for 2020 developed during the 2018 annual strategic planning cycle. They have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities. They have also assessed the potential impact on the Group's trading arising from Brexit (as further described on page 39), which is not anticipated to be significant in the context of the Group's operations. Based on this, the Directors are satisfied that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 5 March 2019 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 has conducted an evaluation of its performance and that of its principal committees during 2018. As highlighted in last year's annual report, the Company engaged an external facilitator as part of the Board's Strategic Review exercise in 2017 to assess the operational dynamics of the Board. The Board decided not to repeat this exercise in 2018, but instead reverted to an internal assessment process (as adopted in previous years), which was supported by one-on-one interviews conducted with members of the Board. The headline conclusion arising from this evaluation exercise is that the Board is seen as operating in an extremely open and transparent manner, and in an environment of trust, with all Board members having absolute freedom to express their opinions for the greater good of the business. In addition, a culture has been created whereby there is now much greater focus on supporting the key strategic imperatives for the Group and its operations. In terms of possible areas of attention in the future, the evaluation process highlighted the need for continued focus on: (i) providing visibility for the NEDs on the forward-looking strategic agenda to assist with future planning activities (particularly in areas such as the development of technology road-maps), (ii) the implications of customer/competitor activities on strategic decision-making, to include increased granularity on the implications of investing in new sectors, (iii) strengthening the Group's risk management programme, to include an increased focus on emerging risk factors, and (iv) creating clear "staging-posts" that the Board considers TT is capable of reaching as an organisation, to include an analysis of what it will take to get there and the impediments the business may face along the way (such as regulatory challenges). Overall, the Board concluded it had performed satisfactorily in 2018.

Directors' performance evaluation

In accordance with the Code, the performance of individual Directors was also evaluated during 2018.

For the Non-executive Directors, the output from a private meeting held between the Chairman and the Executive Directors formed the basis for individual appraisals held by the Chairman with each Non-executive Director. This also provided an opportunity to discuss any issues which had arisen from either their individual assessments or those of the Board and its principal Committees. For 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 and Chief Financial Officer, met privately to discuss this, with the outcomes being fed back to the Chairman by the Senior Independent Director for discussion.

At the beginning of the year, we set each Executive Director challenging performance objectives, and reviewed progress against these as the year progressed. Both the Executive Directors take part in the Group's performance management programme which, 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 Chairman conducted performance evaluation of the Chief Executive Officer, 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.

Nominations committee



Neil Carson
Chairman, Nominations Committee

Membership

Neil Carson (Chairman)

Stephen King

Michael Baunton

Alison Wood

Jack Boyer

Principal responsibilities

- Regularly review the structure, size and composition of the Board as a whole and make recommendations for any changes to the Board.
- Review the overall leadership needs of the organisation considering succession planning for Non-executive Directors (having due regard to their length of service), Executive Directors and members of the EMB and make recommendations to the Board.
- Manage the search for, and selection of, suitable candidates for the appointment of replacement or additional Directors and nominate candidates for the approval of the Board.

Committee meetings in 2018

During 2018, the Committee held two formal meetings. The Committee has held no meetings to date during 2019.

2018 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.

No changes have been made to the composition of the Board since Jack Boyer and Alison Wood joined the Company as Non-executive Directors in 2016. However, in August 2019, Michael Baunton will have completed nine years' service as a Non-executive Director of the Company, at which point he will no longer be considered "independent" for the purposes of the Code. As such, the Committee has engaged an independent recruitment consultant and is in the process of conducting a search for his replacement. This activity has represented the principal area of focus of the Committee during the past year, as well as reviewing the existing structure of the Board and the wider EMB and reviewing the Committee's terms of reference.

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 TT Electronics maintains the strongest possible leadership.

The Board attaches a high degree of importance to diversity at all levels across the Group, which is set out in the Group's Statement of Values and Business Ethics Code and has also been reinforced in each Annual Report over the past couple of years. Equally important is the need to ensure 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 TT Way" corporate responsibility section on page 42.

Performance evaluation

As described further on page 60, the Committee assessed its performance in 2018 by reviewing its activities during the year against its terms of reference. It concluded that it had performed satisfactorily and is structured appropriately to provide effective support to the Board.

Neil Carson
Chairman, Nominations Committee

Audit committee



Stephen King
Chairman, Audit Committee

Membership

Stephen King (Chairman)

Jack Boyer

Michael Baunton

Alison Wood

Principal responsibilities

- Monitor the integrity of the financial statements and the results announcements of the Group.
- Recommend the appointment and remuneration of the Auditor, assess their effectiveness, and monitor provision of non-audit services.
- Assess the content of the Auditor's transparency report, concerning Auditor independence in providing both audit and non-audit services.
- Review the scope, performance and effectiveness of the internal audit and other internal control functions and the Auditor's assessment of it.
- Review changes to accounting policies and procedures, decisions of judgement affecting financial reporting, compliance with accounting standards and with the Companies Act 2006.
- Review internal control and risk management processes, including principal risks and internal control findings highlighted by management or internal and external audit.
- Review internal financial controls and monitor and review the effectiveness of the internal audit function.
- Review the Group's whistleblowing arrangements and procedures

Committee meetings in 2018

During 2018, the Committee held four scheduled meetings.

The Committee met with the Group's Auditor, KPMG LLP, on three occasions during 2018, without executives of the Company being present. During the year, the Committee also met representatives of the outsourced internal control function once, without other executives of the Company being present.

The Committee has held one meeting to date during 2019.

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

2018 review

To allow the Audit Committee to fulfil 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 Auditor also attends, and presents reports on their audits. They address matters including an overview of the financial statements, key accounting judgements, accounting policies, audit differences and internal control matters. On occasion, at the request of the Committee, the Chairman and the CEO also attend for part of the scheduled Committee meetings.

The Group conducts its internal audit activities under a directed outsource arrangement, 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. 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. As part of this process, the Committee noted the outputs of the internal audit reviews conducted during 2018, which are undertaken both on a site specific basis (with each principal TT site being reviewed at least

once every three years) and on targeted functional areas. In particular, a detailed review was undertaken of the Group's IT Security strategy and processes during 2018. The Committee has paid particular attention in the past year to the progress made in developing the Group-wide Controls Framework programme and its application in driving business performance across TT, particularly in the context of the financial integration process for newly acquired businesses.

During 2018, the EMB conducted a detailed review of possible emerging risks (in consultation with PwC), which were not currently addressed in the Group risk register, but could have application in the future to an international business operating in TT's sector. The outputs of this analysis were discussed at both the Board and Committee level, and as a consequence, the Committee amended its Terms of Reference at the end of 2018 to specifically cover emerging areas of potential risk.

During 2018 the Committee reviewed and considered the usual standing agenda items and further matters as detailed on page 63.

The Committee has reviewed and challenged the form and content of the Group's Annual Report and Accounts and Financial Statements for 2018. In conducting its review, the Committee considered reports prepared by management and the external Auditor. 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 59 and the Viability statement on page 39. The Committee also considered and challenged items excluded from underlying profit and whether these were consistent with the accounting policy of the Group. In addition, as part of the Committee's planning for the 2018 year-end audit process, a detailed assessment was undertaken (in conjunction with the external

COMMITTEE ACTIVITIES IN 2018			
Financial reporting	Governance	Internal audit and risk and assurance	External audit
<ul style="list-style-type: none"> Monitored and reviewed the Group's financial statements and results announcements Reviewed significant financial reporting and accounting issues Reviewed going concern and viability statements, including appropriate sensitivity analysis Reviewed the fair, balanced and understandable process for the financial reports Reviewed and discussed 2018 year end accounting issues 	<ul style="list-style-type: none"> Reviewed the Financial Reporting Council's letter of October 2018 in relation to 2017/2018 Corporate Governance reporting Reviewed Terms of Reference Received and considered whistleblowing matters reported through the Group's multi-lingual, anonymous Ethics and Integrity portal Undertook an internal evaluation on the effectiveness of the Committee 	<ul style="list-style-type: none"> Received a report from PwC at each meeting on the internal audit and risk assurance plan Agreed the remit of the internal audit programme of work Considered the results of the 2018 internal audit activities Reviewed and approved the 2019 internal audit plan Conducted the annual review of the Group's internal auditor Presentation on Finance team initiatives from the VP Finance for Global Manufacturing Solutions 	<ul style="list-style-type: none"> Discussed and approved the external audit plan and audit fee Reviewed and confirmed the independence of the external auditor as part of the 2018 review Assessed the quality and effectiveness of the audit programme, including the performance of the Auditor relative to prior year

auditors) of the FRC's key areas of focus, as outlined in its Annual Review of Corporate Governance Reporting 2017/18, published in October 2018. The Committee focused its attention in particular on critical judgements, estimates and accounting policies; the viability statement and risk reporting; strategic reporting; Alternative Performance Measures; the impact of Brexit and IFRS 9, 15 and 16.

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 100 to 107.

The Committee received and reviewed reports from management and the external Auditor setting out the significant issues in relation to the 2018 financial statements, which related to:

- Underlying profit and restructuring provisions.
- Provisions (including taxation, divestment and product warranties).
- Defined benefit pension obligations.
- Going concern and viability.

They discussed these issues (which are considered in more detail below) with management during the year and with the external Auditor at the time the Committee reviewed and agreed the external Auditor's Group audit plan; when the external Auditor reviewed the half-year results in August 2018; 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 and challenged, and are sufficiently robust.

Underlying profit

As further explained in note 8 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, but noted that Income Statement charges as well as credits had been recorded as non-underlying items. They concluded that they 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 Auditor explained to the Committee the work they had conducted and the results of their audit procedures on significant items recorded outside underlying profit.

Provisions (i) Taxation

Current tax provisions held in respect of tax risks are included within current tax liabilities depending on the underlying circumstances of the provision. Management confirmed to the Committee that the provisions recorded at 31 December 2018 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 Auditor explained to the Committee the work they had conducted during the year, including how their audit procedures were focused on those provisions with the highest level of judgement on recognition criteria and/or measurement.

Audit committee continued

(ii) Warranty provisions

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.

Management has confirmed to the Committee that the provisions recorded at 31 December 2018 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 Auditor explained to the Committee the work they had conducted during the year, including how their audit procedures were focused on those provisions with the highest level of judgement on recognition criteria and/or measurement.

Further information about the specific categories of provisions held by the Group is set out in note 20.

Defined benefit pension obligations

At 31 December 2018 the Group operated two significant defined benefit schemes. The first was the TT Group scheme and the second the Stadium Group scheme. There are three other small defined benefit schemes, one in the UK and two in the US.

The Schemes expose 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 TT Group scheme, the Group has developed a comprehensive strategy to manage the

financial risk associated with the schemes. This strategy includes maintaining a long-term working partnership with the Trustee to ensure strong governance of risks within the TT Group scheme and implementing a prudent investment strategy seeking risk-rewarded long-term returns whilst removing the majority of liability mismatching unrewarded risks.

The Committee reviewed the key assumptions supporting the valuation of the retirement benefit obligations noting the advice that management had received from third party advisers. The Committee also considered the adequacy of disclosures in respect of the sensitivity of the balances to changes in these key assumptions (see note 23 to the financial statements on pages 133 to 137).

The Auditor explained to the Committee the work they had conducted during the year in this area.

Other items

Legal, divestment and restructuring provisions

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 and Company Secretary outlining the open legal and contractual disputes and best estimates of the expected costs associated with such matters. As part of this exercise in 2018 account was taken of legal and contractual exposures associated with the divestment of the Transportation division in October 2017.

Management has confirmed to the Committee that the provisions recorded at 31 December 2018 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 Auditor explained to the Committee the work they had conducted during the year in this area. Further information about the specific categories of provisions held by the Group is set out in note 20.

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 Committee confirms that it is satisfied that the external Auditor has fulfilled their responsibilities with diligence and professional scepticism.

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

Fair, balanced and understandable

In accordance with the UK Corporate Governance Code, the Board requested the Committee to advise them on whether it believed 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 position and 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 specifically to highlight evidence of a fair and balanced representation, which supports input and challenge from all independent Non-executive Directors, the external Auditor and other external advisers. On careful review of the Annual

Report for the year ended 31 December 2018, and the basis for the statement made by the Board on "Fair, balanced and understandable" on page 87, 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 position and performance, business model and strategic plan.

Auditor's independence, objectivity and effectiveness

The Audit Committee assesses the independence of the Auditor annually to ensure suitable policies and procedures are in place to safeguard the Auditor's independence and objectivity, having regard to length of tenure, provision of non-audit services and the existence of any conflicts of interest. KPMG LLP (KPMG) was appointed in July 2010, at which time their independence had been considered, and are currently in their ninth year of continuous engagement as Auditor. Mike Barradell is currently in his fourth year as lead audit partner. At the time of the latest annual assessment, we reviewed the provision of non-audit services, together with KPMG's Transparency Report, and KPMG confirmed there were no conflicts of interest the Audit Committee should be aware of.

The Committee has formally reviewed the independence of the Auditor as part of the 2018 review. KPMG has provided a letter to the Committee confirming they remain independent within the meaning of the relevant regulations and in accordance with their professional standards.

The Committee also reviewed the quality and effectiveness of the audit programme during the year, including the performance of the Auditor. 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 Auditor, assisted in ensuring that a comprehensive assessment was undertaken. We identified areas for improvement and communicated them to the Auditor for action.

The Audit Committee has recommended to the Board that KPMG continues in office as Auditor, and the Directors will be proposing the reappointment of KPMG at the Annual General Meeting in May 2019. The Audit Committee recognises the need to carry out a tender of the external audit in time for the 31 December 2020 year-end and is currently considering the timing of the tender process.

Policy on non-audit services

The Company has an established policy regarding the provision of non-audit services by external auditors. This states that we may obtain non-audit services 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 Auditor for additional non-assurance services, unless there are compelling reasons to the contrary, such as capability, time or cost.

In 2018, audit service fees paid to KPMG were £0.9 million, while non-audit service fees paid to KPMG totalled approximately £40,000. This comprised non-audit service fees relating to the half-year review and fees relating to the provision of documents in respect of a government grant claim. During 2018, non-audit service fees paid to KPMG represented approximately 4 per cent of audit service fees paid to them during the same period, a decrease compared to 2017. The Committee believes that, for these particular areas, KPMG was best placed to provide a comprehensive and effective service to the Company.

Performance evaluation

The Committee carried out an assessment of its performance in 2018 based on a review of its activities during the year against its terms of reference. It concluded that it had performed effectively, and is structured appropriately to provide effective support to the Board. The Committee agreed that as the Group pursued its growth agenda in accordance with the strategy set by the Board, it would be important to ensure it focused continued attention on the Group's key risks (and the risk management strategies put in place across the business units to address them), together with new emerging risks having the potential to impact the business at a future date. In addition, the Committee agreed to continue its focus on creating sufficient space on the meeting agenda to showcase emerging talent from within the Finance community (from a succession planning perspective), and further, to seek enhanced input from advisers on potential areas of best practice, in order to provide the Committee with better insight on how to respond to potential new audit challenges in the future. It was also agreed that the outsourced Internal Audit arrangement continued to work positively.

Stephen King
Chairman, Audit Committee

Accountability

Review of internal controls

In accordance with the UK Corporate Governance Code, 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 (covering financial, operational and compliance controls) 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 the processes in place to manage the same are set out on pages 38 to 41. In addition, pages 63 and 64 describe the approach taken by the Audit Committee to key areas of judgement, including the FRC's principal areas of focus.

The risk management procedures and systems of internal control are designed to identify and assess the principal risks the Group faces, and to manage them appropriately. However, the 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 (the Executive Management Board) consisting of the Executive Directors, Executive Vice Presidents and other senior functional leaders (e.g. Operations/Supply Chain, Legal and HR). The Executive Management Board holds meetings on a monthly basis (i.e. face-to-face on six occasions a year, and by teleconference each intervening month), 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 when preparing 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 to identify potential business risks early and agree 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 the Group's accounting records to be 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 accordance with the decision made by the Audit Committee in 2015, the Internal Audit function continued to be outsourced to PwC throughout 2018. The reporting line for this directed outsource arrangement continues to be through the Chief Financial Officer. Responsibility for determining the priority areas to be

covered by the Internal Audit work programme, as well as follow-on mitigation and remediation activities, remains with the Group (overseen by the Audit Committee), and includes monitoring the delivery of such services (and reporting back to the Audit Committee) periodically.

During 2018, the Group continued to deploy its Financial Controls Framework which is to be applied by all entities in the Group. The Framework drives improvement and consistency in the Group's financial control environment, in many cases deploying system based controls to achieve control objectives. The Framework had been deployed across all Group sites by the end of 2018, and work has commenced to bring the legal entities acquired as a result of the Stadium and Precision transactions within the scope of the Framework plan by the end of 2019.

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 2018 and during the period since then to the date of this report. They have made, and will continue to make, improvements where necessary.

Directors' remuneration report



Alison Wood
Chairman, Remuneration Committee

Membership

Alison Wood (Chairman)
Michael Baunton
Jack Boyer
Neil Carson

2018 Highlights

- Review of remuneration trends across the workforce
- Review the total remuneration levels for the Chairman, Executive Directors and Senior Managers
- Shareholder consultation on changes to LTIP performance targets as part of the portfolio development
- Reviewed outcomes, awards and performance targets of incentive schemes
- Changes to short-term incentive targets as part of the portfolio development
- Review of the remuneration requirements of the UK Corporate Governance Code and legislative changes

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See our KPIs on pages 24–25



Read our full Remuneration policy in the 2016 Annual Report at www.ttelectronics.com/investors

Dear Shareholder,

On behalf of the Board I am pleased to introduce the Directors' Remuneration report for the year ended 31 December 2018. On the following pages, the report explains how we have implemented the Remuneration Policy previously approved by shareholders at the 2017 Annual General Meeting (AGM). TT Electronics' over-arching reward framework underpins the business' core purpose and strategic priorities and enables it to attract, retain and motivate talented people by applying consistent yet locally driven reward principles across the Group.

Context and business performance

2018 was an excellent year for TT. The business has had another successful year, delivering on all our key financial measures.

- Underlying profit before tax was £31.5 million, up by 43 per cent.
- Free cash flow remained strong at £7.9 million.
- Underlying EPS was 16.2p, up by 49 per cent.

As well as our strong financial performance, we have executed on our strategy to build leading positions in markets with structural growth drivers where there is increasing electronic content. The acquisitions of Stadium Group plc and Precision Inc. have broadened our portfolio, extended our technical capability and our reach into our target markets. We announced the joint venture with UniRoyal in China, combining our IP with UniRoyal's manufacturing capability and access to the Chinese market to create future growth opportunities. Group performance has been achieved whilst continuing to increase our investments across our strategic opportunities. We continue to focus our resources and R&D investment in areas where we can develop differentiated capabilities. We have

increased spend on R&D by 37 per cent to £12.6 million, and during the year continued to launch new products to market (see pages 26 to 33). We have invested in our business development capabilities both in tools and in training as we build strategic relationships with our customers to help them solve their most complex challenges. Our improved customer focus is reflected in a number of new contract wins (see pages 26 to 33). We remain focused on continued operational excellence including targeting resources on sites that are performing below our benchmark levels (see pages 10 to 11). We are becoming a higher margin, higher quality and increasingly product focused business. Finally, we have maintained our commitment to our people, culture and engagement and have reached our initial employee engagement score goal ahead of expectations.

How do we report on Directors' remuneration?

Our aim is to be transparent so stakeholders can assess whether remuneration paid to executives is appropriate, given the financial, operational and strategic performance of the Company and executives' individual performance. We have reviewed feedback from last year's report and have enhanced how we analyse and describe executives' individual performance. In light of the portfolio development and the impact on incentive targets, we consulted with the 13 major shareholders on changes to the LTIP targets, I would like to thank those for the time taken and for their feedback.

We welcome the changes to The UK Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations 2018 and will consider how best to implement the changes required over the coming months and incorporate the changes into a revised Remuneration Policy to be put before shareholders at the 2020 AGM.

Review of performance for the year

The Group continued to grow and perform during the year, exceeding our financial targets and delivering another year of strong strategic progress. In reviewing performance we have carefully considered the incentive outcomes for this year and believe that the following outcomes are a fair reflection of the business and personal performance of the Executive Directors:

- Short-term incentive for Executive Directors comprises 75 per cent based on financial measures (50 per cent profit before tax and 25 per cent of Group free cash flow) and 25 per cent on the achievement of strategic objectives. For the year ended 31 December 2018, underlying profit before tax grew 43 per cent to £31.5m which continues the growth trend of the business, free cash flow performance was again strong at £7.9m with an underlying cash conversion of 88 per cent. The Executive Directors performed strongly against the Strategic objectives, which led to an incentive payment of 93.27 per cent of the maximum for the CEO and CFO. Detail of the short-term incentive outcome is presented on page 76, including the full range of performance levels for each of the financial measures and commentary on performance against the strategic objectives.
- The 2015 Long-term Incentive Plan (LTIP) awards vested in full in March 2018. The awards were based on two measures, Earnings Per Share (EPS) and relative Total Shareholder Return (TSR) performance. The EPS element vested in full as reported last year. The TSR element also vested in full as presented on page 77.

The 2016 LTIP awards vest in March 2019 based on performance against EPS and TSR. Following the strong performance of the Group, the EPS performance measure has been met in full. The TSR performance measure concludes in March 2019. Further detail is presented on page 77.

Principal responsibilities

- Determine the Remuneration Policy for Executive Directors for approval at least every three years.
- Determine remuneration packages and terms and conditions of employment for the Executive Directors, Senior Managers and the Chairman of the Board.
- Approve the design, performance measures, targets and outturns of incentive schemes for the Executive Directors and Senior Managers.
- Set remuneration policy within the wider context of remuneration trends across the workforce.
- Produce an annual report of the implementation of the Directors' Remuneration Policy and its implementation in the last financial year and for the forthcoming year.

Areas of focus 2019

- Approve the design, performance measures, targets and outturns of incentive schemes for the Executive Directors and Senior Managers, including the impact on incentives of further portfolio development.
- Review of the Remuneration Policy for approval at the 2020 AGM, including changes to reflect the revised UK Corporate Governance Code and legislative changes.
- Enhancing oversight of the workforce remuneration policies and framework to ensure they support the strategic objectives, culture and TT values.

Directors' remuneration report continued

Remuneration in the upcoming year

Over the last few years the Group has made significant strategic progress on the portfolio development creating a higher margin, higher quality and increasingly product focused business. In doing so the business has increased in scale and business complexity with new product capabilities. Following a total remuneration review of the Executive Directors and Senior Managers, the Committee believe the existing incentive design and performance measures remain appropriate until the next Policy review. The Committee has agreed the following:

- Base salaries for the CEO and CFO were increased by 5 per cent and 3 per cent respectively on 1 January 2019. We believe that the base salaries for 2019 better reflect the scale and business complexity of the Group. This approach is consistent with that for the wider employee population where pay is reassessed based on changes to the size, scale and complexity of the role. In making the decision the Committee also took into account the increase proposed for the UK workforce, expected to average 3 per cent, the indicative CEO pay ratio, retention risks, shareholder feedback and the relative position of remuneration compared to companies of similar complexity, sector and size.
- The short-term incentive will continue to comprise 75 per cent based on financial measures (50 per cent profit before tax and 25 per cent of Group free cash flow) and 25 per cent on the achievement of strategic objectives. The maximum award will remain at 100 per cent of salary.
- LTIP awards are planned to be made in March 2019 and will continue to be made on two equally weighted performance measures, EPS and TSR. As in 2018 the awards for the CEO and CFO are expected to be of 150 per cent and 135 per cent of salary respectively.

Discretion and independent judgement

As a Committee, we are willing to exercise discretion and judgement when determining remuneration outcomes for the Executive Directors. We reflect on whether the Company's overall performance is correctly represented by the financial measures we have set. We also take account of the performance of non-financial measures, the demonstration of leadership qualities and living our values before agreeing short-term incentive awards.

During the year the Committee applied its judgement in reviewing and evaluating the impact of portfolio development on the performance measures across the incentive schemes. In 2017, following the sale of the Transportation division, we engaged our largest shareholders to adjust the LTIP performance measures of the 2016 and 2017 awards to ensure the EPS performance targets remained fit for purpose. In 2018, following the acquisitions of Stadium Group plc and Precision Inc., we again engaged our largest shareholders to upwardly adjust the LTIP performance measures of the 2017 and 2018 awards to ensure the EPS performance targets retain an appropriate level of stretch in line with the original performance measures and are fair, reasonable and are materially neither easier nor more difficult to achieve. Shareholder feedback to the consultation was supportive with no significant objections raised. More information is presented on pages 78–79. The EPS performance measures of the 2016 LTIP awards were not adjusted but were assessed against the full year 2018 EPS adjusted to exclude earnings from Stadium Group plc and the resultant impact on interest and tax, such that the performance condition is tested on a basis that is consistent with the original growth targets. During the year, the Committee also adjusted the financial performance measures in the short-term incentive to include the base case performance of the acquisitions of Stadium Group plc and Precision Inc.

Developments for 2019

In the year ahead, the Committee will continue to discuss and implement changes arising from the corporate governance reforms, to monitor general trends in the remuneration of the TT workforce to review alignment and consistency with executive rewards and company culture. As the Company continues through a period of change, the Committee, working with management, will continue to align incentive arrangements with TT's strategy, business results and market demands.

In 2019 we will undertake a review of the Remuneration Policy for approval at the 2020 AGM, which will be one of the main focus areas for the Committee, and I hope to once again engage with our major shareholders on any significant proposed changes. As always, we value your views as shareholders as part of this process. If you would like to discuss any further aspect of our remuneration strategy I would welcome your views. I can be contacted at alison.wood@ttelectronics.com.

Alison Wood
Chairman, Remuneration Committee

Directors' remuneration policy overview

Remuneration objectives and key principles

Set out over the following pages is a summary of the approach to remuneration, including a summary of the Remuneration Policy that was approved by over 99 per cent of our shareholders at the AGM held on 12 May 2017. There are no changes proposed for the year ahead. The full Remuneration Policy can be found in the 2016 Annual Report and Accounts which can be found at www.ttelectronics.com.

The Remuneration Committee believe that the remuneration arrangements should be aligned with the Executives' underlying commitment to act in the best interests of maximising sustainable long-term shareholder value creation, whilst ensuring that behaviours remain consistent with the governance and values of the business.

Key objectives

To deliver a remuneration package:

- to attract, retain and motivate high calibre executives in a challenging and competitive business environment;
- that delivers an appropriate balance between fixed and variable compensation for each executive;
- that places a strong emphasis on performance, both short-term and long-term;
- strongly aligned to the achievement of strategic objectives and the delivery of sustainable value to shareholders; and
- that seeks to avoid creating excessive risks in the achievement of performance targets.

Remuneration principles

- **Performance-related:** the majority of the Executive and senior manager remuneration packages should be determined based on the performance of the Group. A significant proportion of this is aligned with shareholder interests, based on EPS and TSR. Failure to reach performance thresholds leads to no pay-out under the Group's short-term or long-term incentive arrangements.
- **Transparency:** to engender a fair and collaborative culture, total remuneration frameworks should be clear and openly communicated.
- **Competitive:** through a combination of base salaries and competitive performance-related incentive schemes, the Committee aims to provide 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 and taking account of prevailing market and economic conditions, and remuneration levels across the Group.

Directors' remuneration policy overview continued

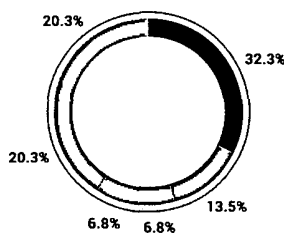
Remuneration Policy

The Remuneration Policy supports and rewards the achievement of the Group's strategy to deliver profitable and sustainable growth over the short and longer term. This is driven and evaluated by how the Group performs against a variety of KPIs both financial and non-financial.

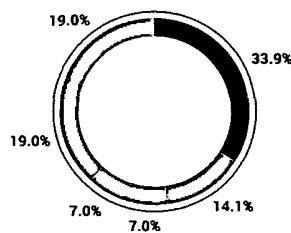
	2018	2019	2020	2021	2022	2023	Key features of Policy	How we implement Policy	Link to strategy
Fixed remuneration							<ul style="list-style-type: none"> Salaries, pension (maximum 15% of salary) and benefits set at a market competitive position. 	<ul style="list-style-type: none"> 2018 salary increase of 2.5%, increase in line with the broader workforce. 2019 salary increase of 5% and 3% for CEO and CFO respectively, reflecting the enhanced scale and business complexity of the Group. 	<ul style="list-style-type: none"> Supports recruitment and retention.
Short-term incentive plan							<ul style="list-style-type: none"> Majority weighting (at least 75%) on Group financial targets with minority weighting to other strategic goals. Maximum cash opportunity of 100% of salary. Clawback provisions apply. 	<ul style="list-style-type: none"> Stretching profit before tax and group free cash flow targets, strategic objectives to drive long-term sustainable returns. Performance below thresholds results in zero payout. Superior reward requires significant overachievement. 	<ul style="list-style-type: none"> Drives short-term overachievement in core financial KPIs and focus on the creation of shareholder value and strategic progress.
Long-term incentive plan							<ul style="list-style-type: none"> Based on financial and/or share price measures over a three-year performance period. Maximum award of 150% of salary. Two-year holding period. Malus and clawback provisions apply. 	<ul style="list-style-type: none"> Vesting linked to stretching EPS growth conditions and outperformance of the TSR peer group. Targets reviewed and adjusted for material portfolio development. 	<ul style="list-style-type: none"> Incentivises long-term financial outperformance of EPS and sustained shareholder value creation.
Shareholding requirements							<ul style="list-style-type: none"> Executive Directors are required to build and maintain a shareholding equivalent to 200% of salary. 	<ul style="list-style-type: none"> Remuneration design is significantly weighted towards long-term incentive. Both Executive Directors exceed their requirement: CEO: 560,896 shares (241% of salary). CFO: 454,438 shares (255% of salary). 	<ul style="list-style-type: none"> Promotes long-term alignment with shareholders. Promotes focus on business sustainability and management of corporate risks.

Aligning our principles with reward

Richard Tyson (2019)



Mark Hoad (2019)



- Fixed remuneration
- Profit before tax (short-term incentive)
- Free cash flow (short-term incentive)
- Strategic objectives (short-term incentive)
- EPS (long-term incentive)
- TSR (long-term incentive)

The short-term and long-term components reflect the maximum potential opportunity. The long-term component is the intended face value of the 2019 LTIP awards.

Key performance indicators for financial year of 2018

Our remuneration arrangements have a clear link to our key performance indicators that are aligned with our business strategy.

Group underlying profit before tax
£31.5m
 at constant budget exchange rate

Group free cash flow
£7.9m
 at constant budget exchange rate

3-year underlying EPS CAGR¹
+29.9%

3-year TSR²
+112.3%
 at 85th percentile

1. EPS compound annual growth rate (CAGR) performance measure relates to the 2016 LTIP award. Performance period from 1 January 2016 to 31 December 2018.
2. TSR performance measure relates to the 2015 LTIP award. Performance period from 18 March 2015 to 17 March 2018.

Performance highlights and incentive outcomes for the year

Short-term incentive plan

Performance measure	Target ¹	Actual ¹	vs Target
Group underlying profit before tax	£28.7m	£30.9m	+107.7%
Group free cash flow	£4.9m	£7.9m	+161.2%

1. Target and actual financial performance are assessed at constant budget exchange rates.

The Executive Directors performed strongly against the strategic objectives, which led to short-term incentive awards to Chief Executive and Chief Financial Officer of 93.27% of the maximum. See page 76 for more detail.

Long-term incentive plan

Performance measure	Targets (threshold/maximum)	Actual
Earnings per share ¹	7.7% – 14.5% compound annual growth rate	29.9%
Total shareholder return ²	Median/upper quartile	85th percentile

1. EPS performance measure relates to the 2016 LTIP award. Performance period from 1 January 2016 to 31 December 2018.
2. TSR performance measure relates to the 2015 LTIP award. Performance period from 18 March 2015 to 17 March 2018.

Performance against both the EPS and TSR performance measures is at 100% of the maximum. See page 77 for more detail.

Executive Director remuneration for the year

	Fixed pay						Variable pay							
	Salary £'000		Benefits £'000		Pensions £'000		STIP £'000		LTIP £'000		Other £'000		Total remuneration £'000	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Executive Directors														
Richard Tyson	455	444	22	22	68	67	425	444	1,215	817	4	–	2,189	1,794
Mark Hoad	348	340	20	19	52	51	325	340	712	1,288	4	–	1,461	2,038



See page 75 for more detail

Directors' annual remuneration report

Implementation of the Remuneration Policy for the year ending 31 December 2019

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2019 is set out below.

Basic salary

The Remuneration Committee agreed to increase Executive Director base salary levels by 5 per cent and 3 per cent for the CEO and CFO respectively with effect from 1 January 2019. In making the decision the Committee took into account the impact of portfolio development on the scale and business complexity and value of the Group, the relative increase proposed for the wider workforce, the indicative CEO pay ratio, retention risks, shareholder feedback and the relative position of remuneration compared to companies of similar complexity, sector and size. Current base salary levels and those applied during the year ended 31 December 2018 are as follows:

Executive	2019	2018	Increase
Richard Tyson	£478,218	£455,446	5.0%
Mark Hoad	£358,731	£348,283	3.0%

The Group's UK employees, in general, are expected to receive pay rises averaging 3 per cent depending on location, promotional increases and individual performance.

Pension and Benefits

There are no changes to the pension (15 per cent of salary) or benefits for current Executive Directors.

Short-term Incentive Plan

The Committee believes it is important for Executive Directors that a significant proportion of their remuneration is performance-related and the performance conditions applying to incentive arrangements support the delivery of the Company's strategy. The maximum cash incentive potential for the year ending 31 December 2019 will remain at 100 per cent of salary for Executive Directors. The split of targets continues to be based on the Group's financial results, being Group underlying profit before tax (up to 50 per cent of salary), Group underlying free cash flow (up to 25 per cent of salary) and strategic objectives (up to 25 per cent of salary) based on the Company's priorities for the forthcoming year.

Targets are set taking account of internal and external forecasts relating to the Company's performance and reflecting the Board's expectation of year-on-year development of the Group. The strategic objectives element has been set to reflect the creation of sustainable value for all our stakeholders with a focus on delivery of critical operational and strategic goals of the business for the year. No award will be payable in respect of the strategic objectives unless specific underlying performance measures are reached.

Targets are considered commercially sensitive until the year end and will be disclosed retrospectively in the Directors' Annual Remuneration report for 2019.

Long-term Incentive Plan

It is intended that LTIP awards of shares worth 150 per cent of salary for the CEO and 135 per cent of salary for the CFO will be made in March 2019. The performance measures will be equally weighed and will consist of relative TSR and growth in the Group's EPS. It is proposed that the following financial targets will apply to the 2019 LTIP awards:

Performance measures	Weighting	Threshold (25% vesting)	Maximum (100% vesting)
EPS compound annual growth over the three-year performance period	50%	6.0%	13.5%
Relative TSR performance against the FTSE SmallCap (excluding Investment Trusts)	50%	Median rank	Upper quartile rank or above

The awards will vest on the third anniversary of grant to the extent the performance targets have been satisfied, followed by a two-year holding period.

The performance measures chosen ensure the alignment of senior management's and shareholders' interests. Target ranges for the 2019 awards have been set taking into account the latest internal and external forecast for the business, including both economic and political uncertainty and TT's principal risks. The Committee is satisfied that the proposed target range is suitably challenging.

The Committee will continue to consider the impact of any significant future portfolio development on the outstanding performance targets at the time of the capital deployment. Any further changes to the performance targets in these circumstances will be communicated to shareholders.

All incentives

In accordance with the revised UK Corporate Governance Code, the Committee has discretion to override the formulaic outcome of both the short-term incentive plan and the LTIP. The Committee also has the ability to apply withholding (malus) or recovery (clawback) to incentive awards if specified events occur prior to the second anniversary of the short-term incentive payment or the third anniversary of the release date of a LTIP award. Relevant events are a material misstatement of the audited results, error in the calculation of the extent of vesting or payout, gross misconduct which could have warranted an individual's summary dismissal, serious reputational damage or corporate failure.

Non-executive Directors

Non-executive Directors' remuneration is set by the Board taking account of the time and responsibility involved in each role, including where applicable the Chairmanship of Board Committees. For 2019, the Chairman's fee and the base Non-executive Director's base fee have been increased by 2.5 per cent, there have been no adjustments to the additional fees for Chairmanship of Board Committees or the role of Senior Independent Director. The increase is expected to be broadly in line with the Group's UK employees, who are expected to receive pay rises averaging 3 per cent.

	2019	2018	Increase
Chairman	£188,455	£183,859	2.5%
Base fee	£45,145	£44,044	2.5%
Additional fees:			
Senior Independent Director	£6,000	£6,000	0.0%
Audit Committee Chair	£8,000	£8,000	0.0%
Remuneration Committee Chair	£8,000	£8,000	0.0%

Implementation of the Remuneration Policy for the year ending 31 December 2018

Single figure for total remuneration (audited)

Directors' remuneration for the year ended 31 December 2018 was as follows:

£'000		Salary/ fees ¹	Taxable benefits ²	Pension ³	Short-term Incentive ⁴	Long-term Incentive ⁵	Other ⁶	Malus and Clawback ⁷	Total
Executive Directors									
	Richard Tyson	2018	455	22	68	425	1,215	4	2,189
		2017	444	22	67	444	817		1,794
	Mark Hoad	2018	348	20	52	325	712	4	1,461
		2017	340	19	51	340	1,288		2,038
Chairman									
	Neil Carson	2018	184						184
		2017	179						179
Non-Executive Directors									
	Michael Baunton	2018	44						44
		2017	43						43
	Stephen King	2018	58						58
		2017	55						55
	Jack Boyer	2018	44						44
		2017	43						43
	Alison Wood	2018	52						52
		2017	50						50

1. Base salary/fees

Base salaries for Executive Directors were reviewed in December 2017 and were increased by 2.5 per cent with effect from 1 January 2018.

Base fees for Non-executives were reviewed in January 2018 and were increased by 2.5 per cent with effect from 1 January 2018. Additional fees were also adjusted in line with market competitiveness and reflecting the updated responsibilities of the role.

2. Taxable benefits

The Executive 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 defined contribution pension and/or a cash supplement.

4. Short-term incentive

Short-term incentive payments were based on performance against Group profit before tax (up to 50 per cent of salary) and Group free cash flow (up to 25 per cent of salary) measured at constant budget exchange rates and strategic objectives (up to 25 per cent of salary) as measured over the 2018 financial year.

During the year the Company acquired Stadium Group plc and Precision Inc., in line with common market practice both the financial targets of Group profit before tax and Group free cash flow were restated to include the pro-rata acquisition base case performance of both businesses.

Directors' annual remuneration report continued

The outcomes of the short-term incentive awards for financial and individual strategic performance in 2018 are summarised in the table below:

Short-term incentive payments for 2018¹

Performance measure	Threshold potential (% of salary)	Maximum potential (% of salary)	Required for threshold bonus (£m)	Required for maximum bonus (£m)	Outturn for incentive plan purposes (£m)	Achievement (% of salary)
Group underlying profit before tax	5%	50%	26.5	30.9	30.9	50%
Group free cash flow	2.5%	25%	3.4	11.4	7.9	18.27%
Strategic objectives	n/a	25%	Further detail below			25%
Total		100%				93.27%

1. Short-term incentives are measured using constant budget exchange rates.

For 2018 the strategic objectives of the Executive Directors centred on the strategic development of the Group and are designed to deliver against the key business priorities. Performance against these is set out in the table below.

Strategic objective and performance commentary	Maximum potential (% of salary)
Execution of portfolio strategy • Ensure continual process of developing and progressing the potential pipeline of strategic acquisitions for the Group is in place and updated to the Board. • Execution of at least one acquisition to close and successfully integrate to deliver business case and be on track to deliver 12% ROI in advance of 2020.	15%
Turnaround of GMS Rogerstone • Successful turnaround of financial performance to meet operating plan budget performance. • Strive to exceed budget profitability by 50% and move towards profitability of peer group. • Establish and build sales pipeline for 2018 and into 2019.	10%

Summary

The Executive Directors delivered strong results and excellent progress, both strategically and in terms of organic financial performance. We have enhanced our capabilities to develop and execute on our strategic acquisition pipeline. Strategically two acquisitions have been completed and integrated during the year, delivering ahead of the base business case resulting in a material improvement towards the early delivery of 12% ROI.

The organic strategy for our operations and the focus on our lower performing sites has progressed well. GMS Rogerstone, one of our lower performing sites during 2017 has improved significantly during 2018. By Q4 the business hit its run rate on financial performance and will deliver material year-on-year improvement to profitability. For 2019 the business is expected to perform in line with the peer group. The sales pipeline has increased immeasurably such that the site is investing in new equipment to support further growth.

In addition to the achievement of the objectives, the Executive Directors have overseen significant progress on the strategic priorities with the investment and development of the business development/sales functions to drive revenue growth and sustainability, progress on delivery of value-added product solutions and wider focus on operational excellence. Elsewhere, there has been continued focus and increased investment in R&D, continued year-on-year improvement in employee engagement but HSE performance, whilst good, has fallen back.

In carrying out a thorough review of the achievement of the strategic objectives, the Committee considered the significant focus and effort required to acquire and integrate the acquisitions of Stadium Group plc and Precision Inc. which materially accelerate the Group's transformation.

As a result, the Remuneration Committee concluded that the strategic objectives have been achieved in full.

The Committee considered whether the formulaic outcome of the financial and strategic assessment was reflective of the performance of the Group during 2018. The Committee was satisfied that this was the case and that no adjustment was required. The Committee also noted that the management team was continuing to make fundamental changes to improve the Group.

5. Long-term incentive

LTIP awards vest depending on performance against two equally weighted measures over separate three-year performance periods. The EPS performance condition is over the three-year period aligned with the Group's financial year. The TSR performance condition is over a separate three-year performance period, ending on the third anniversary of the award date. Accordingly, the performance periods of the two performance conditions end in separate reporting years. Both the 2015 and 2016 LTIP awards had performance periods that ended on or by 31 December 2018 which are therefore included in the single figure for total remuneration for 2018. LTIP values shown in the single figure include dividend equivalents:

Award year and performance measure	Threshold (25% vesting)	Maximum (100% vesting)	Outcome	Percentage of maximum achievement
2015 LTIP award ¹ : Relative TSR performance against the FTSE SmallCap (excluding Investment Trusts)	Median rank	Upper quartile rank or above	85 Percentile (Above upper quartile)	100%
2016 LTIP award ² : EPS compound annual growth over the three-year performance period	7.7%	14.5%	29.9% (Above upper quartile)	100%

- 2015 LTIP award (vested March 2018): The EPS performance period ended on 31 December 2017 and a maximum level of vesting was achieved as described in last year's Remuneration Report. The 2017 single figure for total remuneration has been restated to reflect the vested value of the shares subject to the EPS performance measure which vested on 18 March 2018. The TSR performance period for this award ended on 18 March 2018 and a maximum level of vesting was achieved as indicated in the above table. The vested value of the shares subject to EPS performance measure is included in the 2018 single figure for total remuneration. In both cases the vested shares have been valued at 217p.
- 2016 LTIP award (vests March 2019): The EPS performance period for this award ended on 31 December 2018 and a maximum level of vesting was achieved as indicated in the above table. An estimate of the vested value of the shares subject to the EPS performance measure is included in the 2018 single figure for total remuneration with that estimate based on the average share price in the final quarter of 2018 (213.29p). This estimate will be restated for the actual vested value in the next remuneration report. The TSR performance period ends in March 2019 and the value of the vested awards subject to the TSR performance measures will be included in the 2019 single figure for total remuneration.
- The amount of the award attributable to share price appreciation for the CEO and CFO is £406,227 and £236,555 respectively.

As part of the portfolio development strategy the Committee agreed principles for the adjustment of LTIP performance conditions in relation to capital deployment. The impact of the acquisition of Stadium Group plc on 18 April 2018 for a total consideration of £45.8 million plus net debt acquired of £13.9 million has a material impact on the financial performance of the Company. In order to ensure that the LTIP performance measures remain "fit for purpose", the Committee reviewed the EPS performance targets of the LTIP awards made in 2016, 2017 and 2018. The acquisition of Precision Inc. for an initial consideration of \$23.5 million was reviewed against the principles and the financial impact was deemed to be below the materiality threshold.

In respect of the 2016 LTIP award, the acquisition of Stadium Group plc came towards the end of the three-year performance period. In line with market practice, the EPS performance measures will not be adjusted but will be assessed against the full year 2018 EPS adjusted to exclude earnings from Stadium Group plc and the resultant impact on interest and tax, such that the performance condition is tested on a basis that is consistent with the original growth targets. The following table outlines the audited adjustment of the actual full year EPS to exclude the impact of Stadium Group plc.

Pro-forma EPS excluding Stadium Group plc

	Group	Stadium	Group excl Stadium
Underlying operating profit (£'m)	33.4	4.3	29.1
Interest (£'m)	(1.9)	(0.7)	(1.2)
Tax (£'m)	(5.3)	(0.5)	(4.8)
Earnings (pence)	26.2	3.1	23.1
Weighted number of shares (m)	161.8	161.8	161.8
EPS (pence)	16.2	1.9	14.3

Directors' annual remuneration report continued

2016 LTIP award: EPS compound annual growth over the performance period

The EPS compound annual growth performance condition has been calculated as described in the 2017 Annual Report and Accounts. The sale of the Transportation division during 2017 occurred towards the middle of the three-year performance period and the final EPS compound annual growth rate has been calculated as a combination of two elements, the first 12 months being before the sale and the second 24 month period being after the sale. The base year EPS for the second 24 month period used a significantly higher and more stretching 2016 base year EPS of 8.9 pence than the actual 2016 underlying EPS of 7.8 pence.

	2015	2016	2017	2018
EPS including the Transportation Division	8.8p	12.0p		
EPS excluding the Transportation Division and Stadium Group plc		8.9p	10.5p	14.3p
Aggregate growth over the performance period		119.1%		
EPS compound annual growth rate		29.9%		

6. Other

The Executive Directors were granted Sharesave options on 28 September 2018 over 8,372 shares. The value shown is the difference between the option price and the share price on the date of the award.

7. Malus and clawback

No malus or clawback events occurred during 2018.

Long-term incentives granted during the financial year (audited)

On 14 March 2018, the following LTIP awards were granted to Executive Directors. Awards are subject to a three-year vesting period plus an additional two-year holding period.

Executive	Basis of award granted (% of salary)	Share price at date of grant (pence) ¹	Number of shares over which award was granted	Face value of award (£)	% of face value that would vest at threshold performance	Performance period end date
Richard Tyson	150%	232.3	294,152	683,168	25%	14/03/2021
Mark Hoad	135%	232.3	202,446	470,181	25%	14/03/2021

1. The share price used to determine the number of shares granted was the average share price over the last four trading days prior to grant.

Performance measures for LTIP awards granted during the financial year (audited)

Awards to Executive Directors during 2018 are subject to two equally weighted measures of EPS and TSR. Following the portfolio developments after the awards were made the Committee reviewed the original EPS performance measure to ensure that the awards retain an appropriate level of incentive with performance conditions that are fair, reasonable and no less difficult to satisfy compared to the original targets. The revised targets take consideration of the acquisition 'base case', the current trading environment, integration synergy opportunities and maintain the Executive Directors' focus on delivering the Company strategy for the remainder of the performance period. Malus provisions apply during the three-year performance period and clawback provisions apply for three years following the vesting date.

The revised targets for the LTIP awards granted in 2018 are as follows:

Performance measures	Weighting	Threshold (25% vesting)	Maximum (100% vesting)
EPS compound annual growth over the three-year period ¹	50%	10%	17.5%
Relative TSR performance against the FTSE SmallCap (excluding Investment Trusts)	50%	Median rank	Upper quartile rank or above

1. The original EPS growth targets were 5% and 12.5% at threshold and maximum respectively.

Executive Director interests in shares subject to Company performance conditions

The table below sets out details of outstanding LTIP share awards held by the Executive Directors at 31 December 2018.

Executive	Date of grant	1 January 2018	Granted during the year	Lapsed	Vested	31 December 2018	Market value at 31 December 2018 (£) ¹	Market price at grant date (pence)	Vesting date
Richard Tyson	16/03/2016	341,661 ²				341,661	668,972	159	16/03/2019
	15/03/2017	266,565 ³				266,565	521,934	167	15/03/2020
	14/03/2018		294,152			294,152	575,950	232	14/03/2021
Total outstanding						902,378	1,766,856		
Mark Hoad	16/03/2016	209,016 ²				209,016	409,253	159	16/03/2019
	15/03/2017	203,844 ³				203,844	399,127	167	15/03/2020
	14/03/2018		202,446			202,446	396,389	232	14/03/2021
Total outstanding						615,306	1,204,769		

- The market value at 31 December 2018 represents the total number of shares awarded multiplied by 195.8 pence, being the share price on 31 December 2018. The calculation does not take into account the likelihood of vesting.
- The performance condition attached to 50% of the award is based on EPS. 25% of the shares subject to this part of the award will vest for EPS growth of 7.7% compound per annum, increasing on a straight-line basis to 100% vesting for EPS growth of 14.5% compound per annum over the three-year performance period. The outcome of the EPS performance condition can be found in Section 5. The performance condition attached to the other 50% of the award is based on TSR performance against the FTSE SmallCap (excluding Investment Trusts) during the three-year performance period from the date of award. 25% of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100% vesting at the upper quartile of the comparator group.
- The performance condition attached to 50% of the award is based on EPS. During the year, the EPS targets were reviewed for the effect of the portfolio developments on a similar basis to the 2018 LTIP awards as detailed in Section 5. Following that review, the EPS targets were increased. 25% of the shares subject to this part of the award will vest for EPS growth of 10% (previously 5%) compound per annum, increasing on a straight-line basis to 100% vesting for EPS growth for the year ending 31 December 2019 of 17.5% (previously 12%) compound per annum. The performance condition attached to the other 50% of the award is based on TSR performance against the FTSE SmallCap (excluding Investment Trusts) during the three-year performance period from the date of award. 25% of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100% vesting at the upper quartile of the comparator group.

TT Electronics plc Sharesave scheme

Executive	Date of grant	1 January 2018	Granted during the year	Lapsed	Exercised	31 December 2018	Potential gain at 31 December 2018 (£) ¹	Option price (pence)	Exercisable between/ exercised on
Richard Tyson	01/10/2018		8,372			8,372	0	215	01/11/2021-30/04/2022
Mark Hoad	01/10/2018		8,372			8,372	0	215	01/11/2021-30/04/2022

- The share price on 31 December 2018 was less than the option price. The option price was set at a 20% discount to the three day average share price ahead of the invitation date.
- During the year both Executive Directors exercised their share options over their maturing 2015 Sharesave contracts. The option price was 131p and the gains made on exercise were £11,885 and £10,855 respectively for Richard Tyson and Mark Hoad.

Payments to past Directors (audited)

No payments were made in 2018.

Payments for loss of office (audited)

No payments were made in 2018.

Directors' annual remuneration report continued

Statement of Directors' shareholding and share interests (audited)

Executive	Beneficially owned at 1 January 2018	Beneficially owned at 31 December 2018	Unvested share awards subject to company performance conditions	Outstanding share awards under all employee share plans as at 31 December 2018	Shareholding as a % of salary at 31 December 2018	Value of beneficially owned at 31 December 2018 (£)	Basic salary at 31 December 2018
Executive Directors							
Richard Tyson	186,756	560,896	902,378	8,372	241.1%	1,098,234	455,446
Mark Hoad	40,000	454,438	615,306	8,372	255.5%	889,790	348,283
Chairman							
Neil Carson	150,000	190,000					
Non-Executive Directors							
Michael Baunton	81,554	99,598					
Stephen King	100,000	100,000					
Jack Boyer	40,500	71,588					
Alison Wood	0	0					

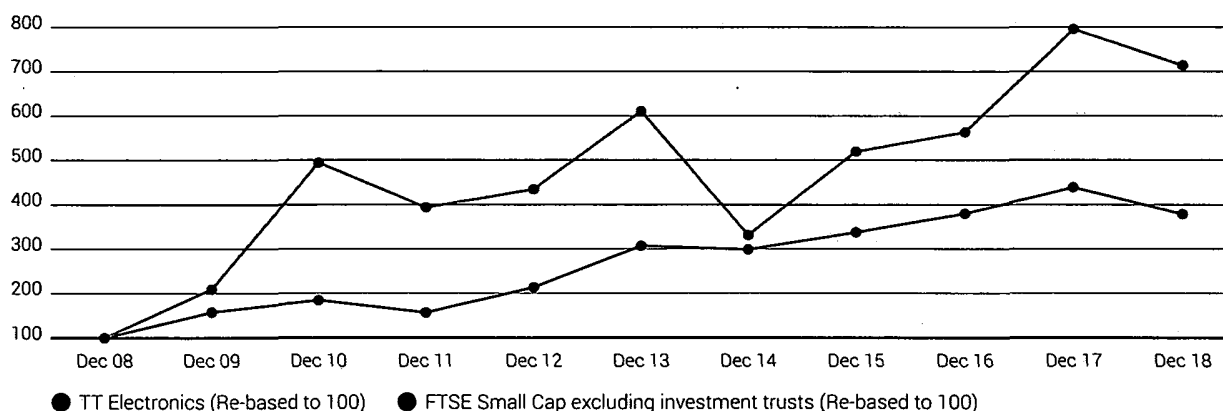
There has been one change to shareholdings between 31 December 2018 and the date of this report. Michael Baunton acquired 5,000 shares in January 2019.

The Remuneration Policy approved by shareholders on 12 May 2017 increased the shareholding requirement in the Company for Executive Directors from 100 per cent to 200 per cent of salary. Executive Directors must retain 50 per cent of the net of tax value of any vested LTIP shares until the guideline is met. At 31 December 2018, both of the Executive Directors were compliant with the minimum shareholding requirement.

The closing middle market prices for an Ordinary share of 25 pence of the Company on 29 December 2017 and 31 December 2018 as derived from the Stock Exchange Daily Official List were 223.75 pence and 195.8 pence respectively. During 2018, the middle market price of TT Electronics plc Ordinary shares ranged between 191.2 pence and 281.0 pence.

Performance graph and table

The following graph shows the cumulative Total Shareholder Return of the Company over the last ten financial years relative to the FTSE SmallCap Index (excluding Investment Trusts). 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.



The graph above shows the value, by 31 December 2018, 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).

Total remuneration figures for the Chief Executive Officer

The total remuneration figures for the Chief Executive Officer during each of the last ten financial years are shown in the table below. The total remuneration figures include the short-term incentive based on that year's performance and LTIP awards based on three-year performance periods ending in the relevant year. The short-term incentive 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 ¹	2014 ²	2015	2016	2017	2018
Total remuneration (£'000)	516	771	1,576	1,684	1,154	249	401	1,151	1,152	1,794	2,189
Short-term incentive (%)	30.0	96.0	96.0	50.0	53.0	0.0	25.0	90.8	100.0	100.0	93.3
LTIP vesting (%)	n/a	0.0	100.0	94.0	89.6	39.6	n/a	0.0	0.0	50.0	100.0

1. Relates to previous Chief Executive Officer who was in position until 30 June 2014.

2. Relates to current Chief Executive Office who joined on 1 July 2014.

Percentage change in the Chief Executive Officer's remuneration

The table below shows the percentage change in the Chief Executive Officer's total remuneration (excluding the value of any LTIP and pension benefits receivable in the year) between the financial year ending 31 December 2017 and 31 December 2018, compared to that of the average for UK employees of the Group.

	Salary	Benefits	Annual bonus
Chief Executive	2.5%	1.4%	-2.0%
Average of UK employees ¹	0.7%	-24.8%	-5.1%

1. For comparison purposes, data is on a like-for-like basis with 2017, excluding joiners during 2018 from Stadium Group plc. The average increase to salaries is reflective of changes to the employee mix. Benefit cost represents a reduction in the taxable benefit cost of the healthcare schemes for eligible UK employees.

Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends. Dividend figures relate to amounts payable in respect of the relevant financial year.

	2017	2018	Change
Staff costs (£'m) ¹	114.0	126.9	11.3%
Dividends (£'m) ²	9.4	10.6	12.8%

1. Staff costs on a like-for-like basis, excluding Stadium Group plc and Precision Inc increased by 1% and on a constant currency basis decreased by 4%.

2. The spend on dividends has increased in line with the number of shares and the progressive dividend policy.

External appointments and retention of fees

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. The table below details the Executive Directors who served as Non-executive Directors in other companies during the year ended 31 December 2018:

Executive	Company	Retained fees (£)
Richard Tyson	Vitec Group plc	33,941

1. Richard Tyson was appointed as Non-executive Director to Vitec Group on 2 April 2018.

Directors' annual remuneration report continued

Advisers to the Remuneration Committee

The Committee received advice during 2018 from Deloitte LLP (Deloitte). Deloitte was appointed in November 2016 as the independent external consultants, to advise on executive remuneration matters.

Deloitte is a member of the Remuneration Consultants Group and have signed up to that group's code of conduct. The Committee is satisfied that the advice it received during the year was objective and independent and that the provision of other services by Deloitte in no way compromised their independence. During the year Deloitte provided services in respect of mergers and acquisitions support and the financial operating model.

Work undertaken by Deloitte in their role as independent advisers to the Committee included providing market information for the Executive Directors and other Senior Managers, advice relating to portfolio development and the impact on executive remuneration, and other governance matters. The fees paid to Deloitte for providing advice in relation to executive remuneration over the financial year amounted to £20,750.

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 Committee considers the views of the Chairman on the performance of the CEO, and of the CEO on the performance and remuneration of the other members of the Executive Management Board. The Committee is also supported by the Group General Counsel and Company Secretary who acts as Secretary to the Committee, the CFO, the EVP Human Resources and the Group Reward Director who attend meetings at the invitation of the Committee. No Committee members or attendees take part in any discussions relating to their own remuneration.

Shareholder voting


The Remuneration Committee considers shareholder feedback received in connection with the AGM each year at a meeting immediately following the AGM and at other times of the year. This feedback is considered as part of the Company's annual review of the Remuneration report and Remuneration Policy. In addition, the Remuneration Committee endeavours to consult directly with the largest shareholders and their representative bodies on proposals ahead of any significant changes.

At the Annual General Meeting held on 10 May 2018, the resolution pertaining to the Directors' Remuneration report was passed on a show of hands. Proxy votes cast in respect of this resolution and the most recent resolution to approve the Remuneration Policy were as follows:

Number of votes	For & Discretionary	For & Discretionary (%)	Against	Against (%)	Withheld	Total vote
Remuneration report (approved at the 2018 AGM)	117,807,266	99.22%	922,706	0.78%	9,244,707	127,974,679
Remuneration Policy (approved at the 2017 AGM)	125,506,296	99.35%	821,753	0.65%	58,879	126,386,928

A full schedule in respect of shareholder voting on the above and all resolutions at the 2018 AGM is available at www.ttelectronics.com.

The Directors' Remuneration report has been approved by the Board on 5 March 2019 and signed on its behalf by:



Alison Wood
Chairman, Remuneration Committee

Other statutory disclosures

This Annual Report and Accounts includes the Directors' report and the audited financial statements for the year ended 31 December 2018. 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. The table below lists items that are relevant to this report, and which are incorporated by reference, including information required in accordance with the UK Companies Act 2006 and Listing Rule 9.8.4R:

Likely future developments in the business	Page 6–9
Employee engagement	Page 46–47
Going Concern	Page 59
Viability Statement	Page 39
Greenhouse gas emissions	Page 44
Current and future dividend waiver	Page 86
Subsidiary undertakings	Page 148–151

Results and dividends

The Group's profit on ordinary activities after taxation was £13.4 million (2017: £47.7 million). The audited financial statements of the Group and the Company are set out on pages 95 to 152. Further details of the Group's activities are set out in the Strategic report on pages 1 to 47.

The Directors are recommending a final dividend of 4.55 pence per share for the year ended 31 December 2018 (2017: 4.05 pence), to be paid on 17 May 2019 to shareholders on the register at 26 April 2019. This, together with the interim dividend of 1.95 pence per share paid on 18 October 2018 (2017: 1.75 pence), makes a total for the year of 6.5 pence (2017: 5.8 pence).

Tax Principles & Strategy

The Group applies a conservative approach to tax and seeks to comply with the OECD Transfer Pricing guidelines, which should ensure that profits are taxed where value is created and business risks are managed. The Group's full Tax Principles & Strategy document is published on the Group's website.

Acquisitions and disposals

On 15 February 2018, the Company announced that the boards of Stadium Group plc ("Stadium") and TT had reached agreement on the terms of a recommended cash offer for Stadium by TT pursuant to which TT would acquire the entire issued and to be issued share capital of Stadium. The transaction was effected by means of a court-sanctioned scheme of arrangement between Stadium and the Stadium shareholders under Part 26 of the Companies Act 2006, which was sanctioned by the court on 17 April 2018 and became effective on 18 April 2018. Under the terms of the transaction, Stadium shareholders were entitled to receive 120 pence in cash for each Stadium share, which valued the entire issued share capital of Stadium at approximately £45.8 million. On completion of the acquisition, the Company assumed Stadium's net debt of £13.9 million as at 17 April 2018. In addition, the Stadium board declared a special dividend of 2.1 pence per Stadium share which was in lieu of any final

dividend for the financial year ended 31 December 2017 and was paid on 30 April 2018. The transaction completed on 18 April 2018 and the cancellation of trading of Stadium shares on AIM took place at 7.00 a.m. on 19 April 2018. Stadium was re-registered as a private company and re-named Stadium Group Limited on 19 April 2018. Further details of the transaction can be found in the Rule 2.7 announcement released on 15 February 2018 and the scheme document dated 15 March 2018.

On 4 June 2018, the Company announced the acquisition (by its wholly-owned subsidiary TT Group Industries, Inc.) of the entire issued share capital of Precision Inc. ("Precision"). The initial cash consideration was \$23.5 million and a further \$0.5 million working capital adjustment was paid in cash. An additional \$4.0 million may become payable subject to business performance of which \$1.1 million was provided at year end and settled in February 2019. Precision adds new design, simulation and manufacturing capabilities including ultra-fine wire winding that are particularly suited to components that require exceptionally high levels of precision such as "in body" equipment in medical markets.

On 12 November 2018, TT (through its wholly-owned subsidiary Welwyn Components Limited) and UniRoyal Electronics Industry (Kunshan) Co., Ltd ("UniRoyal") announced an agreement to establish a joint venture, focused on thick-film, thin-film and metal-based resistors. The joint venture entity (TT-UR Precision Resistors Limited) has been incorporated in the UK and once the transaction is completed, will be owned on a 50/50 basis by both joint venture partners. Manufacturing will be based at UniRoyal's established site in Kunshan, China. Completion is conditional upon, inter alia, the establishment of the required legal entity in China and the grant of a business licence in China, which are expected to be achieved in the first quarter of 2019. A range of new precision resistors, in thick-film, thin-film, and metal technologies is planned, with the first new products anticipated in 2019, which will be distributed by both joint venture partner-companies.

Other statutory disclosures continued

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 or her 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 61.

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 Policy. 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 (other than public holidays) 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 associated companies.

Auditor

KPMG LLP (KPMG) was appointed as Auditor in 2010 following a competitive tender process. KPMG has expressed its willingness to continue in office as Auditor, and a resolution will be proposed at the Annual General Meeting to re-appoint them.

The Auditor's responsibilities are set out on page 93 and should be read in conjunction with those of the Directors as set out at the end of this report.

Annual General Meeting

The Annual General Meeting of the Company will be held on 9 May 2019 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD at 10.00 am. The Notice of the Company's Annual General Meeting accompanies this document.

Research and development

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

Significant agreements relating to change of control

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

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

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 it maintains high standards of employee welfare in all its operations, irrespective of where in the world, and of local market conditions. Together with many other global companies operating in its sector, the Group is a member of the Responsible Business Alliance (formerly the Electronic Industry Citizenship Coalition), a leading industry organisation promoting best practice 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 46 to 47.

Political contributions

The Group made no political contributions during the year.

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 3 March 2019 and 31 December 2018.

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.

	3 March 2019		31 December 2018	
	Number	%	Number	%
Aberforth Partners LLP	14,832,779	9.1	14,832,779	9.1
NN Group N.V.	8,387,718	5.2	8,387,718	5.2
Franklin Templeton Management Ltd	8,300,000	5.1	8,300,000	5.1
Tameside MBC re: Greater Manchester Police	8,108,219	5.1	8,108,219	5.1
Polar Capital LLP	8,220,123	5.0	-	-
Schroders plc	7,931,600	4.9	7,931,600	5.0
JO Hambro Capital Management	7,982,436	4.9	7,982,436	4.9
Aberdeen Asset Management Ltd	7,835,077	4.8	7,835,077	4.8

Share capital

The Company's issued share capital comprises a single class of share capital divided into Ordinary shares of 25 pence each. All issued shares are fully paid. The share capital during the year is shown in note 24 to the consolidated financial statements. The rights and obligations attaching to the Company's Ordinary shares are set out in the Company's Articles of Association, a copy of which can be obtained from Companies House in the United Kingdom or by writing to the Group General Counsel & Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may decide by ordinary resolution, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

Holders of Ordinary shares are entitled to speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, to appoint corporate representatives and to exercise voting rights. Holders of Ordinary shares

may also receive a dividend, and on a liquidation may share in the assets of the Company. In addition, holders of Ordinary shares are entitled to receive the Company's Annual Report and Accounts. Subject to meeting certain thresholds, holders of Ordinary shares may require a general meeting of the Company to be held or the proposal of resolutions at Annual General Meetings.

Authority to allot shares and disapply statutory pre-emption rights

The Directors will be seeking to renew their authorities to allot unissued shares and to disapply statutory pre-emption rights at the Annual General Meeting, to be held on 9 May 2019. During 2018, this authority was used primarily in connection with the allotment of shares resulting from the operation of the Group's share schemes.

Purchase of own shares

At the Annual General Meeting held on 10 May 2018, the Company was given authority to purchase up to 16,295,548 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 Fiduciary Services Limited (previously Sanne Trust Company Limited), part of Sanne Group. As at 31 December 2018, the trustee held 1,145,679 shares with a nominal value of £286,419.75 and an aggregate purchase price of £2.22 per share, representing 0.701% of the total issued share capital

Other statutory disclosures continued

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 2,762,458. 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.

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. You can find further details regarding voting at the Annual General Meeting in the Notice of the Annual General Meeting which accompanies this document. None of the Ordinary shares carries 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 their 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 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 or the Market Abuse Regulations 2015); 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.

Disclosure of information to Auditor

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

Approved by the Board on 5 March 2019 and signed on its behalf by:



Lynton Boardman
Group General Counsel
& Company Secretary

Statement of Directors' responsibilities in respect of the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and Accounts 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 International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law, and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including FRS101 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, relevant, reliable 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;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 and Accounts

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 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

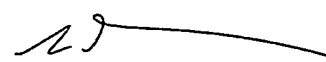
We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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 as part of most Board meetings, at which the entire Board is present, resulting in a clear agreement of the Group's strategy.
- 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 Risk and Assurance function and external Auditor 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 Auditor.

By order of the Board:



Lynton Boardman
Group General Counsel
& Company Secretary
5 March 2019

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

1 Our opinion is unmodified

We have audited the financial statements of TT Electronics ("the Company") for the year ended 31 December 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement company statement of financial position, company statement of changes in equity and the related notes, including the accounting policies in note 1 and 2 and note 2 to the company financial statements.

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 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 1 July 2010. The period of total uninterrupted engagement is for the 9 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: group financial statements as a whole	4.5% (2017: 5.9%) of normalised Group profit before tax from continuing operations
Coverage	77% (2017: 85%) of Group profit before tax from continuing operations

Key audit matters vs 2017

Recurring risks for the Group

Tax provisioning	↔
Warranty and other product provisions	↔
The presentation of 'underlying' operating profit from continuing operations	↔

New risk for the group

The impact of uncertainties due to the UK exiting the European Union	↑
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Recurring risks for the Parent Company

Recoverability of parent company's investment in and amounts due from subsidiaries	↔
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2 Key audit matters: Including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to the UK exiting the European Union on our audit

New risk in 2018 ↑

Refer to page 40 (principal risks), page 39 (viability statement) and page 62 (Audit Committee Report).

The risk – Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in the recoverability of parent company's investments in and amounts due from subsidiaries key audit matter below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response:


We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
- **Sensitivity analysis:** When addressing recoverability of parent company investments in and amounts due from subsidiaries key audit matter and other areas that depend on forecasts, where relevant, we compared the directors' sensitivity analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecasts cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on recoverability of parent company investments in and amounts due from subsidiaries key audit matter we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results:

As reported under recoverability of parent company's investments in and amounts due from subsidiaries key audit matter, we found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Tax provisioning (£10.9 million, 2017: £12.4 million)

Risk versus 2017 

Refer to page 63 (Audit Committee section of the Directors' Report and Notes 1h, 2t and 9 (accounting policy and financial disclosures)).

The risk – Dispute outcome

Provisions for tax contingencies require the directors to make judgements 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.

The effect of these matters is that, as part of our risk assessment, we determined that tax provisioning levels has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 9) disclose the range estimated by the Group.

Our response:

Our procedures included:

- **Our tax expertise:** Assessing together with our own international and local tax specialists the Group's tax positions, its exposure to future cash outflows and analysing and challenging the assumptions used to determine tax provisions based on our knowledge and experience of the application of tax legislation by relevant authorities.
- **Test of details:** Inspecting the Group's correspondence with the relevant tax authorities and its external tax advisers and compared it to management's assumptions forming the basis of estimates in this matter.
- **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

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

Our results:

We found the level of tax provisioning to be acceptable (2017: acceptable).

The presentation of 'underlying' operating profit from continuing operations (£33.4 million, 2017: £24.3 million)

Risk versus 2017

Refer to page 63 (Audit committee section of the Directors' Report and Notes 1c, 1d and 8 (accounting policy and financial disclosures)).

The risk – Presentation appropriateness

The Group discloses its earnings in accordance with the requirements of Adopted IFRS. It also presents a measure of underlying profit and earnings as defined in note 8, which excludes a number of separately disclosed items of income and expenditure. In 2018 this mainly related to restructuring of the Group's operations, acquisition and integration related costs, amortisation of acquired intangibles, disposal of properties and a pension past service charge. The identification of non-underlying items and the presentation of underlying profit and earnings measures that show a consistent and balanced view of the underlying performance of the Group involves judgement. Judgement is also involved in ensuring that undue prominence is not given to underlying financial information, which could be misleading to the readers of the financial statements.

Our response:

Our procedures included:

- **Assessing principles:** Considering whether the Group's accounting policy for non-underlying items is consistent with the FRC thematic reviews and ESMA guidelines on alternative performance measures.
- **Tests of details:** Comparing a sample of the items identified as non-underlying to supporting documentation to assess the nature of the items and therefore, if they have been appropriately excluded from underlying profit based on the Group's accounting policy.
- **Assessing application:** Considering whether the policy for non-underlying items has been applied consistently between periods by comparing both the policy and the nature of these items in the two years ended 31 December 2018 and on the basis of our understanding of the results gained throughout the audit process.
- **Assessing balance and transparency:** Assessing whether 'underlying' operating profit is clearly and accurately defined and that a reconciliation to IFRS financial information is presented. Evaluating the extent to which the relative prominence given to underlying measures, related commentary and adopted IFRS could be misleading in the form and context in which it appears.

Our results:

We found the Group's treatment of non-underlying transactions to be acceptable (2017: acceptable).

Warranty and other product provisions (£3.5 million, 2017 £5.4 million)

Risk versus 2017

Refer to page 64 (Audit Committee section of the Directors' Report and Notes 1h, 2u and 20 (accounting policy and financial disclosures)).

The risk – Dispute outcome

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, requires judgement and involves making estimates and assumptions.

The effect of these matters is that, as part of our risk assessment, we determined that the warranty and other product provisions has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 20) disclose the range estimated by the Group.

Our response:

Our procedures included:

- **Enquiries of lawyers:** Corresponding with the Group's external legal counsel and discussions with the Group's internal legal counsel as well as with the Group's and business units' management to identify actual and potential customer claims and the reasonableness of the estimated liability.
- **Test of details:** Considering relevant available information used by Directors to assess the validity of claims and challenging the methodology of calculating the provisions including the assumptions used and how estimation uncertainty was assessed.
- **Historical comparisons:** Evaluating the historical track record of warranty and other product claims against the Group in order to help assess the appropriateness of provisions held at the period end.
- **Assessing transparency:** Evaluating the adequacy of the Group's disclosures in respect of these provisions in line with accounting standards, and in particular the disclosure of the estimation uncertainty and the quantification of that uncertainty where appropriate.

Our results:

We considered the warranty and other product provisions recognised to be acceptable (2017: acceptable).

Recoverability of parent company's investment in and amounts due from subsidiaries (Investment in subsidiaries – £188.3 million, 2017 £164.6 million. Amounts owed by subsidiary undertakings – £115.5 million, 2017: £106.3 million)

Risk versus 2017 

Refer to Notes 1d, 3 and 4 (accounting policy and financial disclosures) of the Company financial statements.

The Risk – Low risk, high value

The carrying amount of the parent company's investments in, and amounts due from, subsidiaries represents 55% (2017: 54%) and 34% (2017: 35%) of the company's total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

Our response:

Our procedures included:

- **Tests of detail:** Comparing the carrying amount of 100% of investments and 100% of amounts owed by subsidiary undertakings, with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of the minimum recoverable amount of the related investments and amounts owed by subsidiary undertakings, were in excess of their carrying amount, and assessing whether those subsidiaries have historically been profit-making.
- **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit teams on those subsidiaries and considering the results of that work on those subsidiaries' profits and net assets.
- **Our sector experience:** For those subsidiaries where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business.
- **Benchmarking assumptions:** Comparing the relevant subsidiary investment's forecast cash flow assumptions to externally derived data in relation to key inputs such as projected economic growth and (using our valuation specialists) discount rates.

Our results:

We found the group's assessment of the recoverability of the investment in subsidiaries and amounts due from subsidiaries to be acceptable (2017: acceptable).

We continue to perform procedures over carrying value of goodwill. However, following a reduction in risk in the prior year as a result of improved performance and future outlook of the cash generating units that have historically had minimal headroom, this trend has continued in 2018 and therefore we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the group financial statement as a whole was set at £1.2 million (2017: £1.2 million), determined with reference to a benchmark of Group profit before tax from continuing operations normalised to exclude this year's restructuring and other acquisition related costs as disclosed in note 8 of £26.6m, of which it represents 4.5% (2017: 5.9%).

Materiality for the parent company financial statements as a whole was set at £1.1 million (2017: £1.2 million), determined with reference to a benchmark of company total assets, of which it represents 0.3% (2017: 0.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.06 million (2017: £0.06 million) for items impacting the income statement and £0.06 million (2017: £0.12 million) for items in respect of the balance sheet misclassification, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 144 (2017: 98) reporting components, we subjected 44 (2017: 42) to full scope audits for group purposes and 5 (2017: 6) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

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

continued

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

2018 (2017)	Number of components	Group revenue from continuing operations	Group profit before tax from continuing operations	Total assets
Audits for group reporting purposes	44 (42)	54% (77%)	66% (78%)	77% (84%)
Specified risk focused audit procedures on significant working capital balances, non-current assets, revenue, cost of sales and administrative expenses	5 (4)	26% (8%)	11% (7%)	9% (4%)
Total	49 (46)	80% (85%)	77% (85%)	86% (88%)

The remaining 20% (2017: 15%) of group revenue from continuing operations, 23% (2017: 15%) of group profit before tax from continuing operations and 14% (2017: 7%) of total group assets is represented by 114 (2017: 41) reporting components, none of which individually represented more than 4% of any of group revenue from continuing operations, group profit before tax from continuing operations or total group assets. For these residual 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 components.

The Group 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 team approved the component materialities, which ranged from £0.01 million to £1.1 million, having regard to the mix of size and risk profile of the Group across the components. The work on 19 of the 49 components (2017: 27 of the 46 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The group team performed procedures on the items excluded from normalised group profit before tax on continuing operations.

The Group team visited 6 (2017: 3) component locations in the USA, China and the UK (2017: USA, Mexico and the UK) to assess the audit risk and strategy. Telephone conference meetings were also held with the component auditors throughout the audit. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's available financial resources over this period were:

- The potential for the breach of the covenants attached to the revolving credit facility
- Macroeconomic uncertainty

As these were risks that could potentially cast significant doubt on the Group's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out in the Governance report is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the Viability Statement on page 39 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether 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 of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 87, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors as required by auditing standards, and from inspection of the group's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and employment law recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Mike Barradell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
5 March 2019

Consolidated income statement

for the year ended 31 December 2018

£million (unless otherwise stated)	Note	2018	2017 ¹
Revenue	3a	429.5	361.1
Cost of sales		(318.8)	(268.3)
Gross profit		110.7	92.8
Distribution costs		(26.4)	(22.7)
Administrative expenses		(69.5)	(50.8)
Other operating income		1.7	0.7
Operating profit		16.5	20.0
Analysed as:			
Underlying operating profit	3a	33.4	24.3
Restructuring and other	8	(4.9)	(1.6)
Acquisition related costs	8	(12.0)	(2.7)
Finance income	6	0.5	0.1
Finance costs	6	(2.4)	(2.4)
Profit before taxation		14.6	17.7
Taxation	9	(1.6)	(2.0)
Profit from continuing operations		13.0	15.7
Discontinued operations			
Profit from discontinued operations	5	0.4	32.0
Profit for the period attributable to the owners of the Company		13.4	47.7
EPS attributable to owners of the Company (pence)			
Basic			
Continuing operations	11	8.0	9.7
Discontinued operations	11	0.3	19.8
		8.3	29.5
Diluted			
Continuing operations	11	7.8	9.5
Discontinued operations	11	0.3	19.3
		8.1	28.8

1. Re-stated for IFRS 15.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

Emillion	Note	2018	2017
Profit for the year		13.4	47.7
Other comprehensive income/(loss) for the year after tax			
Items that are or may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations		6.3	(9.3)
Gain on hedge of net investment in foreign operations		1.7	1.5
Loss on cash flow hedges taken to equity less amounts taken to income statement		(2.4)	2.1
Foreign exchange gain on disposals taken to income statement		-	(5.1)
Items that will never be reclassified to the income statement:			
Remeasurement of defined benefit pension schemes	23	9.5	10.3
Remeasurement of other post-employment benefits		-	0.1
Tax on remeasurement of defined benefit pension schemes	9	(1.6)	(2.2)
Total comprehensive income for the year attributable to the owners of the Company		26.9	45.1

Consolidated statement of financial position

at 31 December 2018


£million	Note	2018	2017 ¹
ASSETS			
Non-current assets			
Property, plant and equipment	13	51.7	41.8
Goodwill	14	137.9	100.3
Other intangible assets	15	55.0	27.3
Deferred tax assets	9	6.1	5.6
Pensions	23	24.9	15.1
Total non-current assets		275.6	190.1
Current assets			
Inventories	17	96.4	61.8
Trade and other receivables	18	76.2	66.0
Income taxes receivable		1.6	1.3
Derivative financial instruments	22	0.4	1.6
Cash and cash equivalents		40.6	46.5
Total current assets		215.2	177.2
Total assets		490.8	367.3
LIABILITIES			
Current liabilities			
Borrowings	21	0.4	0.3
Derivative financial instruments	22	2.1	0.6
Trade and other payables	19	96.0	67.0
Income taxes payable		13.2	19.0
Provisions	20	4.4	7.3
Total current liabilities		116.1	94.2
Non-current liabilities			
Borrowings	21	81.9	0.3
Deferred tax liability	9	4.8	2.0
Pensions	23	8.4	3.2
Other non-current liabilities	19	0.1	0.1
Total non-current liabilities		95.2	5.6
Total liabilities		211.3	99.8
Net assets		279.5	267.5
EQUITY			
Share capital	24	40.8	40.7
Share premium		3.4	2.9
Other reserves	24	2.7	8.4
Hedging and translation reserve		39.1	33.5
Retained earnings		191.5	180.0
Equity attributable to owners of the Company		277.5	265.5
Non-controlling interests		2.0	2.0
Total equity		279.5	267.5

1. Re-stated for IFRS 15.

Approved by the Board of Directors on 5 March 2019 and signed on their behalf by:



Richard Tyson
Director



Mark Hoad
Director

Consolidated statement of changes in equity

for the year ended 31 December 2018

Emillion	Share capital	Share premium	Hedging and translation reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interest	Total
At 1 January 2017 ¹	40.6	2.1	44.3	9.6	133.5	230.1	2.0	232.1
Profit for the period	-	-	-	-	47.7	47.7	-	47.7
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	(9.3)	-	-	(9.3)	-	(9.3)
Gain on hedge of net investment in foreign operations	-	-	1.5	-	-	1.5	-	1.5
Loss on cash flow hedges taken to equity less amounts taken to income statement	-	-	2.1	-	-	2.1	-	2.1
Foreign exchange gain on disposals taken to income statement	-	-	(5.1)	-	-	(5.1)	-	(5.1)
Remeasurement of defined benefit pension schemes	-	-	-	-	10.3	10.3	-	10.3
Remeasurement of other post-employment benefits	-	-	-	-	0.1	0.1	-	0.1
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	(2.2)	(2.2)	-	(2.2)
Total other comprehensive income	-	-	(10.8)	-	8.2	(2.6)	-	(2.6)
Transactions with owners recorded directly in equity								
Equity dividends paid by the Company	-	-	-	-	(9.1)	(9.1)	-	(9.1)
Share-based payments	-	-	-	4.0	-	4.0	-	4.0
Deferred tax on share-based payments	-	-	-	1.0	-	1.0	-	1.0
Current tax taken to equity	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Purchase of own shares	-	-	-	(6.2)	-	(6.2)	-	(6.2)
New shares issued	0.1	0.8	-	-	-	0.9	-	0.9
At 1 January 2018¹	40.7	2.9	33.5	8.4	180.0	265.5	2.0	267.5
Profit for the year	-	-	-	-	13.4	13.4	-	13.4
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	6.3	-	-	6.3	-	6.3
Gain on hedge of net investment in foreign operations	-	-	1.7	-	-	1.7	-	1.7
Loss on cash flow hedges taken to equity less amounts taken to income statement	-	-	(2.4)	-	-	(2.4)	-	(2.4)
Remeasurement of defined benefit pension schemes	-	-	-	-	9.5	9.5	-	9.5
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	(1.6)	(1.6)	-	(1.6)
Total other comprehensive income	-	-	5.6	-	7.9	13.5	-	13.5
Transactions with owners recorded directly in equity								
Equity dividends paid by the Company	-	-	-	-	(9.7)	(9.7)	-	(9.7)
Share-based payments	-	-	-	(3.8)	-	(3.8)	-	(3.8)
Deferred tax on share-based payments	-	-	-	(1.0)	-	(1.0)	-	(1.0)
Current tax taken to equity	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Purchase of own shares	-	-	-	(0.9)	-	(0.9)	-	(0.9)
New shares issued	0.1	0.5	-	-	-	0.6	-	0.6
At 31 December 2018	40.8	3.4	39.1	2.7	191.5	277.5	2.0	279.5

1. Re-stated for IFRS 15.

Consolidated cash flow statement

for the year ended 31 December 2018

Emillion	Note	2018	2017
Cash flows from operating activities			
Profit for the year		13.4	47.7
Taxation		1.6	2.0
Net finance costs		1.9	2.3
Restructuring and other		4.9	1.6
Acquisition related costs		12.0	2.7
Profit from discontinued operations		(0.4)	(32.0)
Underlying operating profit		33.4	24.3
Adjustments for:			
Depreciation of property, plant and equipment	13	9.8	9.0
Amortisation of intangible assets	15	3.8	3.8
Other items		3.5	3.4
Increase in inventories		(16.2)	(7.4)
Decrease in receivables		4.6	3.0
Increase in payables		9.5	2.5
Underlying operating cash flow		48.4	38.6
Operating cash flow from discontinued operations	5	-	5.9
Special payments to pension funds		(5.3)	(4.7)
Restructuring and acquisition related costs		(11.2)	(4.9)
Net cash generated from operations		31.9	34.9
Net income taxes paid		(6.8)	(5.6)
Net cash flow from operating activities		25.1	29.3
Cash flows from investing activities			
Interest received		0.1	0.1
Purchase of property, plant and equipment	13	(13.4)	(11.4)
Proceeds from sale of investment property, plant and equipment and grants received		4.2	1.6
Development expenditure	15	(3.7)	(1.6)
Purchase of other intangibles	15	(2.1)	(2.1)
Investing cash flow from discontinued operations	5	-	(9.2)
Acquisitions of businesses		(63.9)	(1.2)
Dividends paid by subsidiary to former shareholders		(0.8)	-
Cash with acquired businesses		(3.2)	-
Disposal of subsidiaries	5	1.5	116.1
Tax arising on disposal of subsidiaries		(2.9)	-
Cash with disposed businesses		-	(2.4)
Net cash flow from investing activities		(84.2)	89.9
Cash flows from financing activities			
Issue of share capital	24	0.6	0.9
Interest paid		(1.7)	(2.0)
Repayment of borrowings		(15.0)	(119.1)
Proceeds from borrowings		86.7	13.9
Other items		(7.9)	(6.3)
Finance leases		(0.3)	(0.3)
Dividends paid by the Company	10	(9.7)	(9.1)
Net cash flow from financing activities		52.7	(122.0)
Net decrease in cash and cash equivalents		(6.4)	(2.8)
Cash and cash equivalents at beginning of year	26	46.5	49.8
Exchange differences	26	0.5	(0.5)
Cash and cash equivalents at end of year	26	40.6	46.5

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 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 IFRS Interpretations Committee 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 95 to 142 have been prepared using consistent accounting policies except for the adoption of new accounting standards and interpretations noted below.

b) Basis of consolidation

The financial statements of the Group consolidate the results of the Company and its subsidiary entities and include its share of its joint venture's results accounted for under the equity method.

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.

Joint ventures are enterprises over which the Group and one or more third parties have joint control. The Group has rights to the net assets of the enterprise, rather than rights to its assets and obligations for its liabilities.

c) Alternative performance measures

These financial statements include alternative performance measures that are not prepared in accordance with IFRS. These alternative performance measures have been selected by management to assist them in making operating decisions because they represent the underlying operating performance of the Group and facilitate internal comparisons of performance over time.

Alternative performance measures are presented in these financial statements as management believe they provide investors with a means of evaluating performance of the Group on a consistent basis, similar to the way in which management evaluates performance, that is not otherwise apparent on an IFRS basis, given that certain non-recurring, infrequent or non-cash items that management does not believe are indicative of the underlying operating performance of the Group are included when preparing financial measures under IFRS.

The Directors consider there to be seven main alternative performance measures: underlying operating profit, cash conversion, organic revenue growth, free cash flow, underlying EPS, underlying effective tax rate and return on invested capital.

d) Underlying operating profit

This has been defined as operating profit from continuing operations excluding the impacts of significant restructuring programmes; significant one-off items including property disposals; business acquisition and divestment related activity; and the amortisation of intangible assets recognised on acquisition. Business acquisition and divestment related items include 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. Restructuring include significant changes in footprint (including movement of production facilities) and significant costs of management changes.

Other alternative performance measures are defined in note 8.

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 47. The Strategic Report analyses the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, note 22 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.

1 Basis of preparation continued

The Group had net debt of £41.7 million at 31 December 2018 (2017: £47.0 million net funds), with available undrawn committed and uncommitted facilities of £140.3 million (comprising committed facilities of £101.1 million and uncommitted facilities of £39.2 million representing overdraft lines and an accordion facility of £30.0 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 at least twelve months from the date of signing these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further details are contained in the Governance and Directors' Report on page 59.

f) New standards and interpretations not yet adopted

The Group continues to assess the impact of IFRS 16 Leases which will be effective for periods beginning 1 January 2019. Standards and interpretations issued by the IASB are only applicable if endorsed by the EU.

IFRS 16 'Leases' is effective for annual periods beginning 1 January 2019. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The most significant impact of IFRS 16 will be that the Group's leased properties, which are currently classified as operating leases, will be recognised as a lease liability with a corresponding asset in the Statement of Financial Position.

The Group will adopt the modified retrospective approach to transition. Our initial estimated impact is recognition of right-of-use assets of between £18.0 million and £22.0 million and associated lease liabilities of between £20.0 million and £24.0 million, the difference being recognised as an adjustment to equity.

The Group continues to assess the impact of IFRIC 23 Uncertainty over Income Tax Treatments which will be effective for periods beginning 1 January 2019. The Group does not expect a material impact from the adoption of IFRIC 23.

g) Change in accounting policies

The Group has implemented IFRS 15 Revenue from Contracts with Customers in the year ended 31 December 2018. The core principle of IFRS 15 is that an entity recognises revenue in accordance with principles set out in a five step model to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Implementation of the standard had the following impact on the income statement and balance sheet:

The effect of adopting IFRS 15 on the Group for the year ended 31 December 2017 is to increase continuing revenue by £1.1 million, with a corresponding increase to cost of sales. This relates primarily to materials and tooling supplied by customers treated as revenue under the new accounting policy. Similarly, discontinued revenue has increased by £4.4 million, cost of sales has increased by £4.0 million and administrative expenses increased by £0.4 million. Inventory has increased by £2.7 million (recognising the full value of inventory previously netted against customer receipts) and other payables have increased by £4.0 million (customer receipts for inventory (£2.7 million) and a provision for contractually agreed future price reductions (£1.3 million). Group net assets have decreased by £1.3 million (contracted future price reductions).

The Group also adopted IFRS 9 Financial Instruments in the year ended 31 December 2018. Adoption of the new standard did not have a material impact on 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. In addition to the key sources of estimation uncertainty shown below, in applying the Group's accounting policies, the Directors have exercised judgement in adopting alternative performance measures (as described in note 8). The determination of items of income and expense excluded from operating profit to arrive at underlying operating profit requires critical judgement.

Notes to the consolidated financial statements

continued

1 Basis of preparation continued

Estimation uncertainty

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

- Note 9 – Taxation. Accruals for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. These amounts are expected to be utilised or to reverse as tax audits occur or as the statute of limitations is reached in the respective countries concerned. The recognition of deferred tax assets is dependent on assessments of future taxable income in the relevant countries concerned;
- Note 14 – Goodwill. The carrying amount of goodwill has been tested for impairment by estimating the value in use of the cash-generating units to which it has been allocated. Note 14 outlines the significant assumptions made in performing the impairment tests;
- Note 20 – 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; and
- Note 23 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions, including future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate. Note 23 outlines the significant assumptions and associated sensitivities.

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 customer obtains control of goods. In most cases this is at the point in time of the transfer of legal title of the goods. Revenue for services is recognised as the services are rendered. For sales to customers where a right to return an item is granted, revenue is recognised to the extent of the consideration to which the Group ultimately expects to be entitled (i.e. revenue is not recognised for goods expected to be returned). Where a service warranty is provided to customers, the associated revenue, based upon an allocation of the overall cost of performance, is recognised over the warranty period.

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 and assets held for sale

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. An asset is classified as held for sale if it is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and that it is highly probable the asset will be sold within one year from the date of classification.

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.

2 Summary of significant accounting policies continued

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 selfconstructed 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.

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.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

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.

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.

2 Summary of significant accounting policies continued

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.

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.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

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 the schemes' liabilities less the fair value of the 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. 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. Surpluses are recognised where, on ultimate wind-up when there are no longer any remaining members, any surplus will be returned to the Group.

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. Nonmonetary 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 and equity accounted investments 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 or equity accounted investment any cumulative exchange movements relating to that subsidiary or equity accounted investment held in the translation reserve are transferred to the consolidated income statement.

y) Joint Ventures

Joint ventures are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases.

Notes to the consolidated financial statements

continued

3 Segmental reporting

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

- **Sensors and Specialist Components** – The Sensors and Specialist Components division works with customers to develop standard and customised solutions including sensors and power management devices. Our solutions improve the precision, speed and reliability of critical aspects of our customers' applications;
- **Power and Connectivity** – The Power and Connectivity division develops and manufactures power application products and connectivity devices which enable the capture and wireless transfer of data. We collaborate with our customers to develop innovative solutions to optimise their electronic systems; and
- **Global Manufacturing Solutions** – The Global Manufacturing Solutions division provides manufacturing services and engineering solutions for our product divisions and to customers that often require a lower volume and higher mix of different products. We manufacture complex integrated product assemblies for our customers and provide engineering services including designing testing solutions and value-engineering.

The key performance measure of the operating segments is underlying operating profit. Refer to note 8 for a definition of underlying operating profit.

Corporate costs – Resources and costs of the head office managed centrally but deployed in support of the operating units are allocated to segments based on a combination of revenue and operating profit. Resources and costs of the head office which are not related to the operating activities of the trading units are not allocated to divisions and are separately disclosed, equivalent to the segment disclosure information, so that reporting is consistent with the format that is used for review by the chief operating decision maker. This gives greater transparency of the underlying operating profits for each segment.

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

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 may be smaller than the segment which they are part of.

a) Income statement information – continuing operations

Emillion						2018
	Sensors and Specialist Components	Power and Connectivity	Global Manufacturing Solutions	Total Operating Segments	Corporate	Total
Sales to external customers	149.8	97.9	181.8	429.5	–	429.5
Underlying operating profit	21.3	8.4	11.3	41.0	(7.6)	33.4
Adjustments to underlying operating profit (note 8)						(16.9)
Operating profit						16.5
Net finance costs						(1.9)
Profit before taxation						14.6

3 Segmental reporting continued

£million						2017 ¹
	Sensors and Specialist Components	Power and Connectivity	Global Manufacturing Solutions	Total Operating Segments	Corporate	Total
Sales to external customers	142.3	64.5	154.3	361.1	–	361.1
Underlying operating profit	18.8	6.2	6.5	31.5	(7.2)	24.3
Adjustments to underlying operating profit (note 8)						(4.3)
Operating profit						20.0
Net finance costs						(2.3)
Profit before taxation						17.7

1. Re-stated for IFRS 15.

There are no significant sales between segments.

b) Segment assets and liabilities

£million	Assets		Liabilities	
	2018	2017 ¹	2018	2017 ¹
Sensors and Specialist Components	131.0	116.2	20.5	19.3
Power and Connectivity	119.8	76.4	20.8	11.1
Global Manufacturing Solutions	111.0	92.1	47.3	31.9
Segment assets and liabilities	361.8	284.7	88.6	62.3
Pensions and other post-employment benefits	24.9	15.1	8.4	3.2
Unallocated assets and liabilities	104.1	67.5	114.3	34.3
Total assets/liabilities	490.8	367.3	211.3	99.8

£million	Capital expenditure		Depreciation and amortisation	
	2018	2017	2018	2017
Sensors and Specialist Components	10.7	8.4	7.1	6.9
Power and Connectivity	4.9	2.6	3.0	2.3
Global Manufacturing Solutions	3.5	3.4	3.5	3.6
Total	19.1	14.4	13.6	12.8

1. Re-stated for IFRS 15.

Unallocated assets of £104.1 million (2017: £67.5 million) include Stadium goodwill of £27.3 million (2017: £nil), intangible assets recognised on acquisition of Stadium of £19.0 million (2017: £nil), deferred tax of £6.1 million (2017: £5.6 million), cash of £40.6 million (2017: £46.5 million) and income tax of £1.6 million (2017: 1.3 million) and assets associated with the central corporate function of £9.5 million (2017: £14.1 million).

Unallocated liabilities of £114.3 million (2017: £34.3 million) include borrowings of £82.3 million (2017: £0.6 million), deferred tax of £4.8 million (2017: £2.0 million) and income tax of £13.2 million (2017: £19.0 million) and liabilities associated with the central corporate function of £14.0 million (2017: £12.7 million).

Notes to the consolidated financial statements

continued

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	2018	2017 ¹
United Kingdom	122.4	97.6
Rest of Europe	79.8	63.7
North America	121.9	110.2
Central and South America	1.1	0.8
Asia	100.7	85.8
Rest of the World	3.6	3.0
Total continuing operations	429.5	361.1

1. Re-stated for IFRS 15.

No individual customer directly accounts for more than 10% of Group revenue. Revenue from services is less than 1% 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 pensions, analysed by the geographical area is shown below:

£million	2018	2017
United Kingdom	122.7	73.9
Rest of Europe	0.1	0.2
North America	107.3	79.4
Central and South America	3.6	7.2
Asia	10.9	8.7
	244.6	169.4

d) Market information

Revenue by market

The Group operates in the following markets.

£million	2018	2017 ¹
Transport	51.2	44.0
Aerospace and defence	80.4	78.6
Industrial	205.4	167.1
Medical	92.5	71.4
	429.5	361.1

1. Re-stated for IFRS 15.

4 Acquisitions

On 17 April 2018 the Group acquired the entire equity share capital of Stadium Group plc for £45.8 million in cash and assumed net debt of £13.9 million.

From the date of acquisition to year end the business contributed £42.8 million revenue (£26.2 million within Power and Connectivity and £16.6 million within Global Manufacturing Solutions), an underlying operating profit of £4.3 million (£3.5 million within Power and Connectivity and £0.8 million within Global Manufacturing Solutions) and an underlying operating cash inflow of £4.8 million. In September 2018, Stadium Group paid deferred cash consideration of £0.1 million in final settlement of an acquisition made in 2017.

4 Acquisitions continued

In addition, on 1 June 2018 the Group acquired the entire equity share capital of Precision Inc. for an initial cash consideration of \$23.5 million (£17.6 million), a further \$0.5 million (£0.4 million) working capital adjustment paid in cash. An additional \$4.0 million (£3.0 million) may become payable subject to business performance of which \$1.1 million was provided at year end and settled in cash in February 2019.

From the date of acquisition to year end Precision contributed £10.2 million revenue, an underlying operating profit of £1.1 million to the Group's results and an operating cash outflow of £1.2 million.

Had the both the acquisitions been completed on 1 January, the full year revenue and underlying operating profit would have been £452.0 million and £34.3 million respectively, compared to £429.5 million and £33.4 million as reported.

The provisional fair values of the identifiable assets and liabilities acquired are as follows:

£million	Stadium Group plc			Precision Inc		
	Book value at date of acquisition	Fair value adjustments (provisional)	Fair value at date of acquisition (provisional)	Book value at date of acquisition	Fair value adjustments (provisional)	Fair value at date of acquisition (provisional)
Non-current assets						
Property, plant and equipment	4.1	–	4.1	1.2	–	1.2
Identifiable intangible assets	0.9	21.2	22.1	–	8.2	8.2
Deferred tax assets	2.3	–	2.3	–	–	–
Current assets/(liabilities)						
Inventory	13.3	1.3	14.6	1.8	0.2	2.0
Trade and other receivables	13.1	–	13.1	2.9	–	2.9
Cash/(overdraft)	(3.6)	–	(3.6)	0.4	–	0.4
Borrowings – current	(10.3)	–	(10.3)	–	–	–
Trade and other payables	(13.5)	(0.8)	(14.3)	(2.1)	–	(2.1)
Income taxes payable	(0.1)	–	(0.1)	–	–	–
Provisions – current	(0.9)	–	(0.9)	–	–	–
Non-current liabilities						
Pensions	(4.5)	–	(4.5)	–	–	–
Deferred tax liability	(0.3)	(3.7)	(4.0)	–	–	–
	0.5	18.0	18.5	4.2	8.4	12.6
Consideration paid/payable						
Cash			45.8			18.0
Deferred consideration			–			0.8
Goodwill			27.3			6.2

The acquisitions accelerate the Group's strategy of building leading positions where increasing electrification is fuelling the demand for the Group's highly engineered electronic solutions. The goodwill recognised on acquisition represents the Group's view of the future earnings growth potential and the technical know-how in the acquired businesses. The provisional fair values are based on the information currently available; if new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Notes to the consolidated financial statements

continued

5 Discontinued operations

On 2 October 2017 the Group disposed of the Transportation Sensing and Control division to AVX Corporation for £125.6 million in cash before costs, comprising £118.8 million initial cash consideration and an additional £6.8 million in respect of working capital and net debt adjustments, of which £5.0 million was settled in cash during 2017 and £1.8 million settled in cash in early 2018.

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

£million	2018	2017 ¹
Revenue	-	205.5
Cost of sales	-	(179.7)
Gross profit	-	25.8
Distribution costs	-	(6.8)
Administrative expenses	0.2	(6.6)
Operating profit	0.2	12.4
Analysed as:		
Underlying operating profit	-	12.6
Restructuring	0.2	(0.2)
Finance income	-	0.1
Profit on disposal of discontinued operations	(0.3)	26.3
Profit before taxation	(0.1)	38.8
Taxation	0.5	(6.8)
Profit from discontinued operations	0.4	32.0

1. Re-stated for IFRS 15.

The profit on disposal of discontinued operations is analysed below:

£million	2018	2017
Gross cash received	1.8	123.8
Less: legal and professional costs	(0.3)	(7.7)
Net proceeds per consolidated cash flow statement	1.5	116.1
Deferred consideration receivable	(1.8)	1.8
Less: provision for costs	-	(1.5)
Less: net assets at completion	-	(91.8)
Less: write off of capitalised software costs relating to disposed division	-	(3.4)
Add: foreign exchange gain on disposals	-	5.1
	(0.3)	26.3

The net cash flow from discontinued operations included in the consolidated cash flow statement is shown below:

£million	2018	2017
Operating activities	-	5.9
Investing activities	-	(9.2)
Financing activities	-	(1.7)
Disposal of subsidiaries	1.5	116.1
Tax arising on disposal of subsidiaries	(2.9)	-
Cash with disposed businesses	-	(2.4)
Net cash flow	(1.4)	108.7

6 Finance costs and finance income

£million	2018	2017
Interest income	0.1	0.1
Net interest income on pension surplus	0.4	–
Finance income	0.5	0.1
Interest expense	1.8	2.0
Net interest expense on pension liabilities	0.2	0.1
Amortisation of arrangement fees	0.4	0.3
Finance costs	2.4	2.4
Net finance costs	1.9	2.3

7 Profit for the year

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

£million	2018	2017
Depreciation of property, plant and equipment	9.8	9.0
Amortisation of intangible assets ¹	8.6	6.1
Net foreign exchange gains	1.4	0.3
Cost of inventories recognised as an expense	318.8	267.2
Research and development	10.2	8.7
Staff costs (see note 12)	126.9	114.0
Restructuring (excluded from underlying operating profit)	2.7	7.5
Impairment of property, plant and equipment and intangibles ²	–	0.7
Remuneration of Group Auditors:		
• audit of these financial statements	0.3	0.4
• audit of financial statements of subsidiaries of the Company	0.6	0.4
• assurance services ³	–	0.2
Government grants credited	0.1	0.2
Share-based payments	3.1	4.1
Profit on disposal of property, plant and equipment (excluded from underlying operating profit)	3.6	0.2

1. Included within amortisation of intangible assets is £4.8 million (2017: £2.3 million) reported within items excluded from underlying operating profit.

2. Impairment of property, plant and equipment and intangibles in 2017 related to a £0.7 million write down arising on a planned site closure reported within items excluded from underlying operating profit.

3. Assurance services of £42 thousand comprises £39 thousand relating to the half year review and £3 thousand for assistance with a UK grant review (2017: £0.2 million include class 1 transactional work, half year review, assistance relating to historical tax issues and UK grant claim reviews).

8 Alternative performance measures

These financial statements include alternative performance measures that are not prepared in accordance with IFRS. These alternative performance measures have been selected by management to assist them in making operating decisions because they represent the underlying operating performance of the Group and facilitate internal comparisons of performance over time.

Alternative performance measures are presented in these financial statements as management believes they provide investors with a means of evaluating performance of the Group on a consistent basis, similar to the way in which management evaluates performance, that is not otherwise apparent on an IFRS basis, given that certain non-recurring, infrequent or non-cash items that management does not believe are indicative of the underlying operating performance of the Group are included when preparing financial measures under IFRS.

These non-IFRS measures should not be considered in isolation from, as substitutes for, or superior to financial measures prepared in accordance with IFRS.

Notes to the consolidated financial statements continued

8 Alternative performance measures continued

The Directors recognise the following alternative performance measures: underlying operating profit, free cash flow, cash conversion, organic revenue growth, underlying EPS, underlying effective tax rate and return on invested capital. Free cash flow includes cash flow from discontinued operations as this better reflects the overall funding position of the Group.

Underlying operating profit

This has been defined as operating profit from continuing operations excluding the impacts of significant restructuring programmes; significant one-off items including property disposals, business acquisition and divestment related activity; and the amortisation of intangible assets recognised on acquisition. Business acquisition and divestment related items include 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. Restructuring includes significant changes in footprint (including movement of production facilities) and significant costs of management changes.

Costs associated with restructuring, acquisitions and disposals are uncertain with regard to their timing and size and therefore their inclusion within underlying operating profit could mislead the reader of the accounts.

£million	2018		2017	
	Operating profit	Tax	Operating profit	Tax
As reported	16.5	(1.6)	20.0	(2.0)
Restructuring and other				
Restructuring	(2.7)	0.4	(3.7)	0.4
Property items	3.6	-	0.2	-
Pensions past service (charge)/credit	(5.8)	1.1	1.9	(0.4)
Impact of US tax reform legislation	-	-	-	1.8
	(4.9)	1.5	(1.6)	1.8
Acquisition related costs				
Release of acquisition current tax provision	-	0.6	-	-
Amortisation of intangible assets arising on business combinations	(4.8)	1.2	(2.3)	0.5
Other acquisition related costs	(7.2)	0.4	(0.4)	0.1
	(12.0)	2.2	(2.7)	0.6
Total items excluded from underlying measure	(16.9)	3.7	(4.3)	2.4
Underlying measure	33.4	(5.3)	24.3	(4.4)

Restructuring £4.9 million (2017: £1.6 million)

In the year ended 31 December 2018 total restructuring costs amounted to £4.9 million of which £2.7 million related to costs associated with site restructuring, a profit arising on the sale of property (£3.6 million) and a pension past service charge (£5.8 million) as a result of UK pensions schemes having to equalise male and female members' benefits in respect of guaranteed minimum pensions.

In the year ended 31 December 2017, total restructuring costs amounted to £1.6 million of which £3.7 million related to costs associated with site restructuring, a credit in respect of a pension past service adjustment under which members agreed to exchange future pension increases for an additional amount of initial pension (£1.9 million net of £0.4 million costs) and a profit arising on the sale of certain properties (£0.2 million).

In December 2017, new legislation was enacted fundamentally changing the basis of US tax. This resulted in a one-off benefit of £1.8 million arising due to enacted changes in tax rate.

Acquisition and disposal related costs £12.0 million (2017: £2.7 million)

In the year ended 31 December 2018 acquisition and disposal related costs amounted to £12.0 million which comprises £4.8 million of amortisation of acquired intangible assets and £7.2 million of other acquisition related costs derived primarily from the acquisitions of Stadium Group plc and Precision Inc.

In the year ended 31 December 2017, acquisition and disposal related costs amounted to £2.7 million which related to £2.3 million of amortisation of acquired intangible assets and £0.4 million of other acquisition related costs.

8 Alternative performance measures continued

Free cash flow

This has been defined as net cash flow from operating activities less cash flow from investing activities (excluding acquisitions and disposal proceeds and tax arising thereon) less interest paid.

£million	2018	2017
Net cash flow from operating activities	25.1	29.3
Net cash flow from investing activities	(84.2)	89.9
Add back: Acquisition of business	63.9	1.2
Add back: Dividends paid by subsidiary to former shareholders	0.8	–
Add back: Cash with acquired businesses	3.2	–
Add back: Disposal of subsidiaries	(1.5)	(116.1)
Add back: Tax arising from disposal of subsidiaries	2.9	–
Add back: Cash with disposed businesses	–	2.4
Interest paid	(1.7)	(2.0)
Free cash flow	8.5	4.7

Cash conversion

This is the underlying operating cash flow post capex (underlying EBITDA less net capital expenditure (excluding property disposals), capitalised development expenditure, working capital and non-cash movements) divided by underlying operating profit. Cash conversion measures how effectively we convert profit into cash and tracks the management of our working capital and capital expenditure.

£million	2018	2017
Underlying operating profit	33.4	24.3
Underlying operating cash flow	48.4	38.6
Purchase of property, plant and equipment	(13.4)	(11.4)
Proceeds from sale of plant and equipment and grants received	0.3	0.2
Development expenditure	(3.7)	(1.6)
Purchase of other intangibles	(2.1)	(2.1)
Underlying operating cashflow post capex	29.5	23.7
Cash conversion	88%	98%

Organic revenue growth

This is the percentage change in revenue from continuing operations in the current year compared to the prior year, excluding the effects of currency movements and acquisitions. This measures the underlying growth of the business.

£million	Sensors and Specialist Components	Power and Connectivity	Global Manufacturing Solutions	Total
2018 revenue	149.8	97.9	181.8	429.5
Acquisitions	–	36.6	16.6	53.2
2018 revenue (excluding acquisitions)	149.8	61.3	165.2	376.3
2017 revenue (restated)	142.3	64.5	154.3	361.1
Foreign exchange impact	3.6	0.4	1.9	5.9
2017 revenue at 2018 exchange rates	138.7	64.1	152.4	355.2
Organic revenue growth (%)	8%	(4%)	8%	6%

Notes to the consolidated financial statements continued

8 Alternative performance measures continued

Underlying earnings per share

This is the profit for the year attributable to the owners of the Company adjusted to exclude the items not included within underlying operating profit divided by the weighted average number of shares in issue during the year. Underlying EPS is a standard metric to determine corporate profitability for shareholders and it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan. See note 11 for the calculation of underlying earnings per share.

Underlying effective tax rate

This is defined as the tax charge adjusted to exclude items not included within underlying operating profit and other non-underlying tax items divided by underlying profit before tax, which is also adjusted to exclude the items not included within underlying operating profit.

£million	2018	2017
Underlying profit	33.4	24.3
Net interest	(1.9)	(2.3)
Underlying profit before tax	31.5	22.0
Underlying tax	5.3	4.4
Underlying effective tax rate	16.8%	20.0%

Return on invested capital

This is defined as underlying operating profit for the year divided by average invested capital for the year. Average invested capital excludes pensions, provisions, tax balances, derivative financial assets and liabilities, cash and borrowings. This measures how efficiently assets are utilised to generate returns with the target of exceeding the cost to hold the assets.

£million	2018	2017
Underlying profit	33.4	24.3
Average invested capital	289.8	229.4
Return on invested capital	11.5%	10.6%

9 Taxation

a) Analysis of the tax charge for the year

£million	2018	2017
Current tax		
Current income tax charge	6.3	7.4
Adjustments in respect of current income tax of previous year	(2.9)	0.5
Total current tax charge	3.4	7.9
Deferred tax		
Relating to origination and reversal of temporary differences	(1.3)	(1.6)
Change in tax rate	0.1	(1.7)
Recognition of previously unrecognised deferred tax assets	(0.6)	(2.6)
Total deferred tax credit	(1.8)	(5.9)
Total tax charge in the income statement – continuing operations	1.6	2.0

UK tax is calculated at 19% (2017: 19.25%) 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 11.0% (the underlying tax rate was 16.8%, see note 8).

Included within the total tax charge above is a £3.7 million credit relating to items reported outside underlying profit (2017: £2.4 million).

9 Taxation continued

b) Reconciliation of the total tax charge for the year

£million	2018	2017
Profit before tax from continuing operations	14.6	17.7
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	2.8	3.4
Effects of:		
Impact on deferred tax arising from changes in tax rates	0.1	(1.7)
Overseas tax rate differences	1.2	0.8
Items not deductible for tax purposes or income not taxable	1.2	2.0
Adjustment to current tax in respect of prior periods	(2.9)	0.5
Recognition of previously unrecognised deferred tax assets	(0.6)	(2.6)
Recognition and utilisation of tax losses and other items not previously recognised	-	(0.5)
Current year tax losses and other items not recognised	(0.2)	0.1
Total tax charge reported in the income statement	1.6	2.0

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 17%.

In December 2017, the US Federal Government enacted substantial changes to the basis of US Federal corporate income tax and the tax rate was reduced from 35% to a rate of 21% applicable from 1 January 2018. The change in tax rate has resulted in a change to the level of deferred tax held in respect of the Group's US operations. The Group has not identified any other significant tax charges or credits arising from the newly enacted legislation.

The adjustment to current tax in respect of prior periods largely relates to the release of tax provisions in respect of concluded disputes and uncertainties.

The overall aim of the Group's tax strategy is to support business operations by ensuring a sustainable tax rate, mitigating tax risks in a timely and cost efficient way and complying with tax legislation in the jurisdictions in which the Group operates.

It is however inevitable that the Group will be subject to routine tax audits or is in ongoing disputes with tax authorities in the multiple jurisdictions it operates within. This is much more likely to arise in situations involving more than one tax jurisdiction. Differences in interpretation of legislation (e.g. EU Law), of global standards (e.g. OECD guidance) and of commercial transactions undertaken by the group between different tax authorities are one of the main causes of tax exposures and tax risks for the group.

In order to manage the risk to the Group an assessment is made of such tax exposures and provisions are created using the best estimate of the most likely amount to be incurred within a range of possible outcomes. The resolution of the Group's tax exposures can take a considerable period of time to conclude and, in some circumstances, it can be difficult to predict the final outcome.

The Group current tax liability at 31 December 2018 includes tax provisions of £10.9 million (2017: £12.4 million). The Group believes the range of possible outcomes is tax liabilities of £7.4 million (2017: £8.5 million) to £11.4 million (2017: £12.8 million).

c) Deferred tax

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

£million	2018	2017
Deferred tax assets	6.1	5.6
Deferred tax liabilities	(4.8)	(2.0)
Net deferred tax asset	1.3	3.6

Notes to the consolidated financial statements continued

9 Taxation continued

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

£million	As at 1 January 2018	Continuing operations	Recognised on acquisition	Recognised in equity/OCI	Net exchange translation	As at 31 December 2018
Intangible assets	(5.9)	0.6	(4.0)	-	(0.2)	(9.5)
Property, plant and equipment	2.9	(0.8)	-	-	-	2.1
Deferred development costs	(1.0)	(0.1)	-	-	-	(1.1)
Retirement benefit obligations	(2.2)	-	0.8	(1.6)	0.2	(2.8)
Inventories	1.0	-	-	-	-	1.0
Provisions	2.8	1.1	0.1	-	-	4.0
Tax losses	0.6	0.9	1.3	-	-	2.8
Unremitted overseas earnings	(0.9)	(0.3)	-	-	-	(1.2)
Share-based payments	2.8	(0.5)	-	(1.0)	-	1.3
Short-term timing differences	3.5	0.9	0.1	-	0.2	4.7
Deferred tax asset/(liability)	3.6	1.8	(1.7)	(2.6)	0.2	1.3

£million	As at 1 January 2017	Continuing operations	Disposal of subsidiaries	Recognised in equity/OCI	Net exchange translation	As at 31 December 2017
Intangible assets	(9.9)	2.8	0.7	-	0.5	(5.9)
Property, plant and equipment	(0.8)	3.0	0.5	-	0.2	2.9
Deferred development costs	(1.7)	-	0.7	-	-	(1.0)
Retirement benefit obligations	1.7	(1.3)	(0.2)	(2.2)	(0.2)	(2.2)
Inventories	2.0	(0.9)	-	-	(0.1)	1.0
Provisions	4.4	(0.6)	(0.8)	-	(0.2)	2.8
Tax losses	1.9	0.1	(1.3)	-	(0.1)	0.6
Unremitted overseas earnings	(1.6)	0.7	-	-	-	(0.9)
Share-based payments	0.7	1.1	-	1.0	-	2.8
Short-term timing differences	3.6	1.0	(1.0)	-	(0.1)	3.5
Deferred tax asset/(liability)	0.3	5.9	(1.4)	(1.2)	-	3.6

At 31 December 2018, 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	-	-	12.1	12.1
Losses for which no deferred tax asset has been recognised	0.5	-	9.5	10.0
Deferred tax asset	0.5	-	21.6	22.1

At 31 December 2017, the gross amount and expiry date of losses available for carry forward are as follows:

£million	Expiring within 5 years	Expiring within 6–10 years	Unlimited	Total
Losses for which a deferred tax asset has been recognised	-	-	0.5	0.5
Losses for which no deferred tax asset has been recognised	-	-	11.9	11.9
Deferred tax asset	-	-	12.4	12.4

At 31 December 2018, the Group had no other items for which no deferred tax assets have been recognised (2017: £nil).

10 Dividends

	2018 pence per share	2018 £million	2017 pence per share	2017 £million
Final dividend for prior year	4.05	6.6	3.90	6.3
Interim dividend for current year	1.95	3.1	1.75	2.8
	6.00	9.7	5.65	9.1

The Directors recommend a final dividend of 4.55 pence per share which when combined with the interim dividend of 1.95 pence per share gives a total dividend for the year of 6.5 pence per share. The Group has a progressive dividend policy. The final dividend will be paid on 17 May 2019 to shareholders on the register on 26 April 2019.

11 Earnings per share

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

Underlying earnings per share is based on the underlying profit after interest and tax.

Pence	2018	2017
Basic earnings per share		
Continuing operations	8.0	9.7
Discontinued operations	0.3	19.8
Total	8.3	29.5
Pence	2018	2017
Diluted earnings per share		
Continuing operations	7.8	9.5
Discontinued operations	0.3	19.3
Total	8.1	28.8

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

Underlying earnings per share:

£million	2018	2017
Continuing operations		
Profit for the year attributable to owners of the Company	13.0	15.7
Restructuring and other	4.9	1.6
Acquisition related costs	12.0	2.7
Tax effect of above items (see note 8)	(3.7)	(0.6)
Impact of US tax reform legislation	-	(1.8)
Underlying earnings	26.2	17.6
Underlying earnings per share (pence)	16.2	10.9

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

Million	2018	2017
Basic	161.8	161.7
Adjustment for share awards	4.6	3.9
Diluted	166.4	165.6

Notes to the consolidated financial statements

continued

12 Employee information

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

Number	2018	2017
By function		
Production	4,118	3,622
Sales and distribution	323	275
Administration	273	240
	4,714	4,137
By division		
Sensors and Specialist Components	2,306	2,166
Power and Connectivity	1,017	697
Global Manufacturing Solutions	1,391	1,274
Total	4,714	4,137

Aggregate emoluments, including those of Directors, for the year were:

£million	2018	2017
Wages and salaries	99.6	87.0
Social security charges	19.9	19.3
Employers' pension costs	3.0	2.4
Defined benefit pension costs	1.3	1.2
Share based payments expense	3.1	4.1
	126.9	114.0

Remuneration in respect of the Directors was as follows:

£million	2018	2017
Emoluments	3.6	3.8

Further details of individual Directors' remuneration, pension benefits and share awards are shown in the Directors' Remuneration Report on pages 74 to 82.

Key management personnel

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

£million	2018	2017
Short-term benefits	4.3	4.9
Pension and other post-employment benefit expense	0.1	0.1
Share based payments	1.5	2.0
Termination payments	0.1	0.1
	6.0	7.1

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.

13 Property, plant and equipment

£million	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2017	56.1	322.7	378.8
Additions	0.9	19.4	20.3
Disposals	(2.2)	(13.0)	(15.2)
Disposal of subsidiaries	(27.8)	(155.1)	(182.9)
Transfers	–	(4.2)	(4.2)
Net exchange adjustment	(0.4)	(5.1)	(5.5)
At 1 January 2018	26.6	164.7	191.3
Additions	1.8	11.4	13.2
Businesses acquired	1.2	4.1	5.3
Disposals	(2.9)	(6.6)	(9.5)
Transfers	0.2	(0.2)	–
Net exchange adjustment	1.0	6.8	7.8
At 31 December 2018	27.9	180.2	208.1
Depreciation and impairment			
At 1 January 2017	26.0	260.6	286.6
Depreciation charge	1.6	12.5	14.1
Impairment	0.4	0.4	0.8
Disposals	(1.4)	(13.0)	(14.4)
Disposal of subsidiaries	(13.7)	(116.2)	(129.9)
Transfers	–	(3.1)	(3.1)
Net exchange adjustment	(0.1)	(4.5)	(4.6)
At 1 January 2018	12.8	136.7	149.5
Depreciation charge	1.1	8.7	9.8
Disposals	(2.6)	(6.4)	(9.0)
Net exchange adjustment	0.5	5.6	6.1
At 31 December 2018	11.8	144.6	156.4
Net book value			
At 31 December 2018	16.1	35.6	51.7
At 31 December 2017	13.8	28.0	41.8

Included within land and buildings is one (2017: two) investment property with a carrying value of £0.1 million (2017: £0.5 million). One investment property with a carrying value of £0.4m was disposed of during the year. The fair value of the remaining property is £0.7 million (2017: £3.7 million).

In 2017 the Group identified indicators of impairment due to the planned closure of our GMS facilities in Timisoara, Romania and as a result an impairment of £0.7 million was recognised within items excluded from underlying profit. In addition indicators of impairment with IT assets associated with the Transportation Sensing and Control division were identified and an impairment of £0.1 million was recognised within items excluded from underlying profit.

In 2017 capitalised software with a cost of £4.2 million and accumulated depreciation of £3.1 million was transferred to intangible assets.

Notes to the consolidated financial statements

continued

14 Goodwill

£million	
Cost	
At 1 January 2017	106.5
Additions	0.4
Disposal of subsidiaries	(0.7)
Net exchange adjustment	(5.9)
At 1 January 2018	100.3
Additions	33.5
Net exchange adjustment	4.1
At 31 December 2018	137.9

Goodwill is attributed to the following cash-generating units in the divisions shown below:

£million	2018	2017
Variable Components	30.1	28.3
Optoelectronics	22.5	21.2
Roxspur	2.1	2.1
Resistors	2.3	2.2
Power and Connectivity (excluding Stadium)	35.3	28.7
Global Manufacturing Solutions (excluding Stadium)	18.3	17.8
Stadium	27.3	–
	137.9	100.3

Excluding those businesses acquired in the current year, 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 using conservative assumptions. 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 2018 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 1.6% for the UK businesses, 1.4% for the US businesses and 3.0% for the Chinese businesses (2017: 1.9% for the UK businesses, 1.7% for the US businesses and 3.0% for the 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.

14 Goodwill continued

The pre-tax discount rates used to discount the forecast cash flows are shown below:

	2018	2017
Variable Components	13.3%	15.3%
Optoelectronics	14.0%	13.1%
Roxspur	11.1%	10.7%
Power and Connectivity (excluding Stadium)	11.1%	10.8%
Global Manufacturing Solutions (excluding Stadium)	12.4%	12.2%

No impairment losses have been recognised in the current or prior year as recoverable amounts exceed the total carrying value of assets for all of the CGUs by the following amounts:

£million	2018	2017
Sensors and Specialist Components:		
Variable Components	15.7	12.6
Optoelectronics	50.5	54.5
Roxspur	15.9	11.0
Resistors	74.3	74.4
Power and Connectivity:		
Power and Connectivity (excluding Stadium)	64.5	72.0
Global Manufacturing Solutions:		
Global Manufacturing Solutions (excluding Stadium)	159.3	124.9
	380.2	349.4

A key assumption in the value in use test is the projected performance of the CGUs 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.

Sensitivity analysis has 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 value to be impaired the expected cash flows for every year would need to reduce by the following:

£million	2018	2017
Sensors and Specialist Components:		
Variable Components	33.0%	29.2%
Optoelectronics	57.9%	62.3%
Roxspur	72.7%	65.5%
Resistors	64.7%	70.5%
Power and Connectivity:		
Power and Connectivity (excluding Stadium)	49.7%	52.4%
Global Manufacturing Solutions:		
Global Manufacturing Solutions (excluding Stadium)	77.9%	75.3%

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

Notes to the consolidated financial statements continued

15 Other intangible assets

Emillion	Product development costs	Patents, licences and other	Customer relationships	Total
Cost				
At 1 January 2017	37.7	30.8	25.1	93.6
Additions	2.7	2.3	–	5.0
Businesses acquired	–	0.1	0.5	0.6
Disposal of subsidiaries	(34.9)	(9.3)	(0.1)	(44.3)
Transfers	–	4.2	–	4.2
Net exchange adjustment	(0.2)	(0.1)	(0.2)	(0.5)
At 1 January 2018	5.3	28.0	25.3	58.6
Additions	3.7	2.1	–	5.8
Businesses acquired	0.8	2.7	26.8	30.3
Net exchange adjustment	0.4	0.2	0.4	1.0
At 31 December 2018	10.2	33.0	52.5	95.7
Amortisation				
At 1 January 2017	32.6	17.8	6.5	56.9
Charge for the year	1.6	4.1	1.6	7.3
Impairment	–	3.3	–	3.3
Disposal of subsidiaries	(31.7)	(7.2)	(0.1)	(39.0)
Transfers	–	3.1	–	3.1
Net exchange adjustment	(0.1)	(0.1)	(0.1)	(0.3)
At 1 January 2018	2.4	21.0	7.9	31.3
Charge for the year	1.3	4.5	2.8	8.6
Impairment	–	0.3	–	0.3
Net exchange adjustment	0.2	0.1	0.2	0.5
At 31 December 2018	3.9	25.9	10.9	40.7
Net book value				
At 31 December 2018	6.3	7.1	41.6	55.0
At 31 December 2017	2.9	7.0	17.4	27.3

Included within patents, licenses and other are intangible assets under construction with a carrying value of £1.0 million (2017: £2.1 million).

In 2017 the Group identified indicators of impairment with software associated with the Transportation Sensing and Control division. Following the disposal of the division an impairment of £3.3 million was recognised within items excluded from underlying profit.

In 2017 capitalised software with a cost of £4.2 million and accumulated depreciation of £3.1 million was transferred from property, plant and equipment.

Included within the amortisation charge for the year is £4.8 million (2017: £2.3 million) included within items excluded from underlying profit.

16 Investment in Joint ventures

On 12 November the Group signed an agreement with Uniroyal Electronics Industry to establish a joint venture for sensing and power management devices. Investment and revenues are expected to commence in the second half of 2019.

17 Inventories

£million	2018	2017 ¹
Raw materials	52.7	30.5
Work in progress	21.6	16.1
Finished goods	22.1	15.2
	96.4	61.8

1. Re-stated for IFRS 15.

Inventories are stated after deduction of a provision for slow moving and obsolete items of £20.8 million (2017: £20.1 million).

18 Trade and other receivables

£million	2018	2017
Trade receivables	64.6	48.3
Prepayments	5.1	5.0
Other receivables	6.5	12.7
	76.2	66.0

Provisions for impairment in respect of trade receivables are shown in note 22(d)(ii).

19 Trade and other payables

£million	2018	2017 ¹
Current liabilities		
Trade payables	49.5	32.0
Taxation and social security	4.0	3.1
Other payables, accruals and deferred income	42.5	31.9
	96.0	67.0

1. Re-stated for IFRS 15.

£million	2018	2017
Non-current liabilities		
Accruals and deferred income	0.1	0.1

20 Provisions

£million	Operational Improvement Plan	Reorganisation	Legal, warranty and other	Total
At 1 January 2017	1.3	2.0	4.2	7.5
Utilised	(1.1)	(0.3)	–	(1.4)
Released	–	(0.2)	(0.3)	(0.5)
Arising during the year	–	0.4	1.5	1.9
Disposal of subsidiaries	(0.2)	–	–	(0.2)
Exchange differences	–	–	–	–
At 1 January 2018	–	1.9	5.4	7.3
Businesses acquired	–	–	0.9	0.9
Utilised	–	(1.0)	(1.1)	(2.1)
Released	–	–	(1.8)	(1.8)
Arising during the year	–	–	0.1	0.1
At 31 December 2018	–	0.9	3.5	4.4

Notes to the consolidated financial statements continued

20 Provisions continued

The reorganisation provision relates to the restructuring programme associated with the closure of the Boone, North Carolina operations. Specifically, work is to be undertaken to rectify soil contamination that occurred as a result of past production practices on the site. The provision is based upon the Group's estimate of the scope of work required supported by soil sampling surveys on the site and estimates provided by third party contractors who will be used to perform the remediation work. There is however inherent uncertainty in the costs to be incurred in the remediation process. For example, once the work commences it is possible that the area of soil requiring remediation may be more extensive than suggested by the survey. It is also possible that the work may be more difficult than currently assumed. Both of these possibilities could result in additional cost being incurred however it is considered very unlikely that the total costs of the exercise will exceed a maximum threshold of £1.8 million, compared to the £0.9 million provided. The provisions for the transfers of production lines in Sensors and Specialist Components to low cost manufacturing sites and the closure of our GMS facilities in Timisoara, Romania were fully utilised in the year.

Legal, warranty and other claims represent the best estimate for the cost of settling outstanding product and other claims, warranty provisions created on the disposal of businesses and provision for the cost of acquisitions. The release relates to a surplus warranty provision associated with discontinued operations (£1.0 million) and a surplus claims provision (£0.8 million). The utilisation primarily relates to costs associated with the acquisition of Stadium Group plc which were primarily liabilities within the acquired business.

The Group has, on occasion, been required to enforce commercial contracts and 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.

Whilst the closing balance of the provision represents management's best estimate of the likely costs to be incurred in settling these matters there is uncertainty around the outcome. The most significant elements of the provision relate to product warranty claims and warranties given to the buyer of the Transportation Sensing and Control division in respect of product supplied by that business in the period prior to the sale in 2017. The amounts of both of these liabilities are dependent upon the number and value of claims received. Where possible the Group has purchased insurance cover to protect itself from these exposures. However the Group remains liable for deductible amounts set out in these insurance policies and for claims in excess of the policy limits. In other cases insurance policies are not available and in those circumstances the Group has had to make estimates of the most likely outcome based upon past experience. In total the estimation of the range of possible outcomes is an increase in those liabilities by £1.7 million to a decrease of £2.4 million.

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

21 Borrowings

£million	Maturity	Currency of denomination	Current	Non-current	Total
At 31 December 2018					
£180 million multi-currency revolving credit facility	2023	GBP	–	65.0	65.0
	2023	USD	–	18.5	18.5
Finance leases			0.4	0.2	0.6
Loan arrangement fee			–	(1.8)	(1.8)
Total			0.4	81.9	82.3
At 31 December 2017					
Finance leases			0.3	0.3	0.6
Total			0.3	0.3	0.6

In May 2016 the Group signed a five year £150 million multi-currency revolving credit facility and a further uncommitted incremental accordion facility of £30 million. In December 2018 the Group entered into an agreement to extend the facility with a syndicate of six banks comprising Barclays Bank, Bank of Ireland, Comerica Bank, Fifth Third Bank, HSBC Bank and National Westminster Bank. The maturity date of the facility was extended from May 2021 to November 2023. In addition, the facility size was increased from £150 million to £180 million, with a further uncommitted accordion facility of £30 million. As at 31 December 2018 £83.5 million of the facility was drawn down. Arrangement fees with amortised cost of £1.8 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 adjusted to exclude the items not included within underlying operating profit) and is payable on a floating basis above £LIBOR, €LIBOR or \$LIBOR depending on the currency of denomination of the loan.

Undrawn facilities

At 31 December 2018, the total borrowing facilities available to the Group amounted to £222.6 million (2017: £204.8 million). At 31 December 2018, the Group had available £101.1 million (2017: £154.6 million) of undrawn committed borrowing facilities (comprising the main facility £96.5 million (2017: £150.0 million) and China £4.6 million (2017: £4.6 million) and £39.2 million (2017: £49.6 million) of undrawn uncommitted borrowing facilities, representing overdraft lines and the accordion facility.

22 Financial risk management

The main risks arising from the Group's financial instruments are foreign exchange risk, interest rate risk, credit risk and liquidity 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 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 and interest rates. 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.

Notes to the consolidated financial statements

continued

22 Financial risk management continued

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, hedging strategies are undertaken through the use of forward currency contracts for up to two years ahead.

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.

The forward currency contracts have been designated as cash flow hedges and the mark to market valuation of these derivatives at 31 December 2018 is taken to the hedging reserve within equity. At 31 December 2018, the Group had a net derivative financial liability of £1.7 million (2017: £1.0 million asset).

b) Foreign exchange risk

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

£million	GBP	USD	Euro	Other	Total
31 December 2018					
Trade and other receivables	–	17.8	3.1	0.5	21.4
Cash and cash equivalents	1.1	5.4	1.5	1.1	9.1
Borrowings	–	(18.5)	–	–	(18.5)
Trade and other payables	(0.2)	(12.1)	(1.7)	(7.1)	(21.1)
	0.9	(7.4)	2.9	(5.5)	(9.1)
31 December 2017					
Trade and other receivables	–	9.6	2.9	0.1	12.6
Cash and cash equivalents	0.3	2.8	0.2	1.7	5.0
Trade and other payables	(0.3)	(7.7)	(1.2)	(1.0)	(10.2)
	–	4.7	1.9	0.8	7.4

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	2018	2017
US dollar	0.5	(0.3)
Euro	(0.3)	(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.

22 Financial risk management continued

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	2018 total
Financial assets				
Trade and other receivables	–	–	69.0	69.0
Cash and cash equivalents	40.6	–	–	40.6
Derivative financial instruments	–	–	0.4	0.4
Total financial assets	40.6	–	69.4	110.0
Financial liabilities				
Borrowings (including interest effects of derivatives)	(59.0)	(25.1)	1.8	(82.3)
Trade and other payables	–	–	(93.5)	(93.5)
Derivative financial instruments	–	–	(2.1)	(2.1)
Total financial liabilities	(59.0)	(25.1)	(93.8)	(177.9)

At 31 December 2018, 30% of total debt was at a fixed rate when including the effect of derivatives (2017: 100%).

£million	Floating rate	Fixed rate	Non-interest bearing	2017 total
Financial assets				
Trade and other receivables	–	–	58.6	58.6
Cash and cash equivalents	46.5	–	–	46.5
Derivative financial instruments	–	–	1.6	1.6
Total financial assets	46.5	–	60.2	106.7
Financial liabilities				
Borrowings	–	(0.6)	–	(0.6)
Trade and other payables	–	–	(61.4)	(61.4)
Derivative financial instruments	–	–	(0.6)	(0.6)
Total financial liabilities	–	(0.6)	(62.0)	(62.6)

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 2018, 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 interest rate, based on the year end floating rate borrowings, with all other variables held constant, is estimated to be £0.5 million (2017: £nil).

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.

Notes to the consolidated financial statements

continued

22 Financial risk management continued

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

Trade receivables are denominated in the currencies in which the Group trades. The Group's policy is that receivables and payables not in the functional currency of the subsidiary concerned are, in the main, hedged through forward foreign currency exchange contracts.

There were no material impairments of trade receivables as at 31 December 2018 or 2017. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets.

(i) Risk for trade receivables by geographical regions

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

£million	2018	2017
Europe (including UK)	32.6	26.1
North America	19.0	11.0
Central and South America	–	0.1
Asia	12.0	10.6
Rest of the World	1.0	0.5
	64.6	48.3

(ii) Impairment losses

The ageing of trade receivables at 31 December was:

£million	2018		2017	
	Gross	Impairment	Gross	Impairment
Not past due	57.3	–	41.1	–
Past due 0 – 60 days	7.1	(0.1)	6.8	(0.2)
Past due 61 – 120 days	0.4	(0.1)	0.7	(0.1)
More than 120 days	0.1	(0.1)	0.1	(0.1)
	64.9	(0.3)	48.7	(0.4)

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

£million	2018	2017
At 1 January	(0.4)	(0.7)
Released	0.1	–
Businesses acquired	(0.1)	–
Disposal of subsidiaries	–	0.3
Utilised	0.1	–
At 31 December	(0.3)	(0.4)

22 Financial risk management continued**(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	2018	2017
Other receivables	4.5	10.4
Cash and cash equivalents	40.6	46.5
Derivative financial instruments (current assets)	0.4	1.6

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 2018, the Group had £101.1 million of undrawn committed borrowing facilities (2017: £154.6 million) and £39.2 million (2017: £49.6 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
31 December 2018						
Trade and other receivables	7.1	60.9	1.0	-	-	69.0
Cash and cash equivalents	40.6	-	-	-	-	40.6
	47.7	60.9	1.0	-	-	109.6
Borrowings	-	(0.1)	(0.3)	(81.9)	-	(82.3)
Trade and other payables	-	(91.3)	(2.1)	-	(0.1)	(93.5)
	-	(91.4)	(2.4)	(81.9)	(0.1)	(175.8)

At 31 December 2018 the Group had derivative financial instruments hedging a notional contractual amount of £113.3 million (2017: £76.9 million) of foreign exchange, £93.9 million (2017: £76.9 million) maturing within one year and £19.4 million maturing in more than one year (2017: £nil). In addition, at 31 December 2018 the Group had derivative financial instruments hedging a notional contractual amount of £24.5 million (2017: £nil) of interest rate risk all maturing in more than one year.

Notes to the consolidated financial statements continued

22 Financial risk management continued

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2017						
Trade and other receivables	0.5	57.3	0.8	–	–	58.6
Cash and cash equivalents	46.5	–	–	–	–	46.5
	47.0	57.3	0.8	–	–	105.1
Borrowings	–	(0.1)	(0.2)	(0.3)	–	(0.6)
Trade and other payables	–	(57.4)	(3.9)	–	(0.1)	(61.4)
	–	(57.5)	(4.1)	(0.3)	(0.1)	(62.0)

The following are the contractual maturities of borrowings including contractual future interest payments and commitment fees:

£million	Carrying Amounts	Contractual Cash Flows	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years
31 December 2018	(82.3)	(95.9)	(2.9)	(2.9)	(2.7)	(2.3)	(85.1)
31 December 2017	(0.6)	(2.9)	(1.0)	(1.0)	(0.6)	(0.3)	–

f) Fair value of financial assets and liabilities

IFRS 13 “Fair Value Measurement” 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.

£million	Fair value hierarchy	2018		2017	
		Carrying value	Fair value	Carrying value	Fair value
Held at amortised cost					
Cash and cash equivalents	n/a	40.6	40.6	46.5	46.5
Trade and other receivables	n/a	69.0	69.0	58.6	58.6
Trade and other payables	n/a	(93.5)	(93.5)	(61.4)	(61.4)
Borrowings	n/a	(82.3)	(82.3)	(0.6)	(0.6)
Held at fair value					
Derivative financial instruments (assets)	2	0.4	0.4	1.6	1.6
Derivative financial instruments (liabilities)	2	(2.1)	(2.1)	(0.6)	(0.6)
Held at depreciated cost					
Investment properties	3	0.1	0.7	0.5	3.7

22 Financial risk management continued

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 (£0.4 million) and liabilities (£2.1 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 overriding 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 has net debt of £41.7 million (2017: £47.0 million net funds). Included within the debt facilities are certain financial covenants related to net debt/EBITDA adjusted to exclude the items not included within underlying operating profit and EBITDA adjusted to exclude the items not included within underlying operating profit/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.

23 Retirement benefit schemes

Defined contribution schemes

The Group operates 401(k) plans in North America and defined contribution arrangements in the rest of the world. The assets of these schemes are held independently of the Group. The total contributions charged by continuing operations in respect of defined contribution schemes were £3.0 million (2017: £2.4 million).

Defined benefit schemes

At 31 December 2017 the Group operated a significant defined benefit scheme in the UK (the TT Group scheme) and schemes in the USA (which includes a post-retirement medical benefit element). On the acquisition of Stadium, the Group acquired two new UK defined benefit schemes (the Stadium Group and Southern & Redfern schemes). In order to improve governance and oversight of the Stadium Group scheme, as well as drive cost efficiency, this scheme will be merged into the TT Group scheme (the Group's main scheme) with effect from 29 March 2019. The TT Group scheme commenced in 1993 and increased in size in 2006 and 2007 through the merger of UK former schemes. The parent company is the sponsoring employer in the TT Group scheme. The TT Group scheme 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 TT Group 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 TT Group scheme. The TT Group 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.

Notes to the consolidated financial statements continued

23 Retirement benefit schemes continued

- 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. At the current level there is no significant impact on the reported accounting deficit of a 10bps fall in yields (which would be otherwise a circa £8 million increase if the hedge were not in place) thereby reducing volatility. This strategy has been in place for a number of years protecting the TT Group 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 TT Group 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 has a target to hedge 80% of the interest rate and 85% of the inflation linked liabilities measured on an economic basis. 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 TT Group scheme 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 TT Group scheme 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 TT Group scheme 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 TT Group scheme's risk exposure.

The Trustee allocates the TT Group scheme'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 TT Group scheme as at April 2016 showed a deficit of £46.0 million against the Trustee's funding objective compared with £19.1 million at April 2013. The Company has agreed additional fixed contributions extending to 2020 with the TT Group scheme, based on the actuarial deficit at April 2016.

These planned contributions amount to £5.1 million and £3.9 million to be paid over the next two years.

In addition, the Company has set aside £2.6 million to be utilised in agreement with the Trustee for reducing the long-term liabilities of the TT Group scheme.

The triennial valuation of the Stadium Group scheme as at April 2017 showed a deficit of £4.3 million against the Trustee's funding objective. The Group has agreed fixed contributions of £0.6 million per annum through to 2025 with the Stadium Group scheme, based on the actuarial deficit at April 2017.

The TT Group, Stadium Group, Southern & Redfern and USA schemes are closed to new members and the TT Group, Stadium Group and Southern & Redfern schemes were closed to future accrual in 2010, 2011 and 2001 respectively.

23 Retirement benefit schemes continued

A High Court judgment regarding the equalisation of GMP was published on 26 October 2018. The judgment itself related to the Lloyds Banking Group's pension schemes and requirements to equalise scheme benefits, to address the inherent inequality between genders caused by GMP legislation. GMP is the minimum benefit that must be provided by a pension scheme to a member who had been contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. This ruling has implications for all occupational pension schemes; including the Group's UK schemes; that were contracted out of SERPS on a defined benefit basis between 17 May 1990 and 5 April 1997.

The Group is currently working with the schemes' Trustees regarding the implications of the High Court ruling on GMP equalisation. The UK schemes liabilities at 31 December 2018 include an allowance for the potential additional cost of implementing GMP equalisation in the future as a result of the increases to members' benefits that will be required, currently estimated to be £5.8 million. This allowance has been recognised in the income statement within items excluded from underlying operating profit. The assumptions underpinning the estimate are based on market conditions at the time of the judgement, namely a discount rate of 2.8%, RPI inflation of 3.4%, CPI inflation of 2.4% and using S2 mortality tables.

An actuarial valuation of the USA defined benefit schemes was carried out by independent qualified actuaries in 2018 using the projected unit credit method. Pension scheme assets are stated at their market value at 31 December 2018.

An analysis of the pension surplus/(deficit) by scheme is shown below:

Emillion	2018	2017
TT Group (1993)	24.7	15.1
Stadium Group (1974)	(4.1)	–
Southern & Redfern	0.2	–
USA schemes	(4.3)	(3.2)
Net surplus	16.5	11.9

Given the nature of the Group's control of the TT Group and Southern and Redfern Schemes under the Schemes' rules, pension surpluses have been recognised under IFRIC 14.

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

%	TT Group 2018	Stadium Group 2018	TT Group 2017
Discount rate	2.90	2.90	2.50
Inflation rate (RPI)	3.30	3.30	3.30
Increases to pensions in payment (LPI 5% pension increases)	3.15	3.30	3.10
Increases to deferred pensions (CPI)	2.30	2.30	2.30

The mortality tables applied by the actuaries at 31 December 2018 were S2 tables with 106% (male)/107% (female) weighting for pensioners and 109% (male)/106% (female) weighting for non-pensioners with a 1.5% long-term rate of improvement in conjunction with the CMI 2017 projections. The assumptions are equivalent to life expectancies as follows:

Current pensioner aged 65: 87 years (male), 89 years (female).
Future retiree currently aged 40: 89 years (male), 91 years (female).

The mortality tables applied by the actuaries at 31 December 2017 were S2 tables with 106% (male)/99% (female) weighting for pensioners and 109% (male)/100% (female) weighting for non-pensioners with a 1.25% long-term rate of improvement in conjunction with the CMI 2015 projections.

A decrease in the discount rate by 0.1% per annum increases the liabilities by approximately £8.6 million. An increase by 0.1% per annum in the inflation rate increases the liabilities by approximately £3.2 million. An increase in the life expectancy of 1 year increases the liabilities by approximately £20.0 million.

Notes to the consolidated financial statements

continued

23 Retirement benefit schemes continued

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		2018	2017
Equities			
UK	Quoted	7.2	9.9
	Unquoted	5.0	3.2
Overseas	Quoted	44.9	96.7
	Unquoted	66.3	41.6
Government bonds			
UK	Fixed	121.7	119.7
	Index-linked	108.1	107.8
Overseas		11.7	32.8
Corporate bonds		40.5	77.9
Cash and cash equivalents		47.2	16.1
Derivatives		(3.4)	(6.0)
Insured assets		14.4	2.4
Other		78.0	57.7
Fair value of assets		541.6	559.8
Present value of defined benefit obligation		(525.1)	(547.9)
Net surplus/(liability) recognised in the Consolidated balance sheet		16.5	11.9

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.

Amounts recognised in the Consolidated income statement are:

£million	2018	2017
Scheme administration costs	1.3	1.2
Past service cost/(credit) (non-underlying)	5.8	(2.3)
Net interest (credit)/cost	(0.2)	0.1

The actual return on scheme assets was a loss of £24.1 million (2017: gain of £34.6 million).

23 Retirement benefit schemes continued

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

£million	2018	2017
Defined benefit obligation at 1 January	547.9	551.9
Businesses acquired	35.3	–
Past service charge/(credit)	5.8	(2.3)
Interest on obligation	14.1	14.7
Remeasurements:		
Effect of changes in demographic assumptions	(15.7)	–
Effect of changes in financial assumptions	(33.0)	9.7
Effect of experience adjustments	0.8	–
Benefits paid	(30.8)	(25.1)
Exchange	0.7	(1.0)
Defined benefit obligation at 31 December	525.1	547.9
TT Group (1993)	480.1	536.8
Stadium Group (1974)	32.1	–
Southern & Redfern	0.9	–
USA schemes	12.0	11.1
	525.1	547.9

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

£million	2018	2017
Fair value of schemes' assets at 1 January	559.8	546.2
Businesses acquired	30.8	–
Interest income on defined benefit scheme assets	14.3	14.6
Return on scheme assets, excluding interest income	(38.4)	20.0
Contributions by employer	6.7	6.0
Pension scheme expenses	(1.3)	(1.2)
Benefits paid	(30.8)	(25.1)
Exchange	0.5	(0.7)
Fair value of schemes' assets at 31 December	541.6	559.8

24 Share capital and other reserves**Share capital**

£million	2018	2017
Issued and fully paid		
163,354,090 (2017: 162,917,134) ordinary shares of 25p each	40.8	40.7

The performance conditions of the Long Term Incentive Plan awards issued in 2014 and 2015 that reached the end of their performance periods in 2018 were met and shares were allocated to award holders from existing shares held by an Employee Benefit Trust for nil consideration.

During the period the Company issued 436,956 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.6 million, which was represented by a £0.1 million increase in share capital and a £0.5 million increase in share premium.

Notes to the consolidated financial statements continued

24 Share capital and other reserves continued

Other reserves

Emillion	Share options reserve	Merger reserve	Total
At 1 January 2017	6.2	3.4	9.6
Share based payments	4.0	-	4.0
Deferred tax on share based payments	1.0	-	1.0
Purchase of own shares	(6.2)	-	(6.2)
At 31 December 2017	5.0	3.4	8.4
Share based payments	(3.8)	-	(3.8)
Deferred tax on share based payments	(1.0)	-	(1.0)
Purchase of own shares	(0.9)	-	(0.9)
At 31 December 2018	(0.7)	3.4	2.7

25 Share-based payment plans

The Company has the following share-based payment plans in operation at 31 December 2018:

- Long Term Incentive Plan ("LTIP") for senior executives;
- Restricted Share Plan for certain senior executives; and
- Sharesave plans for UK 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:

	2018 Number of share awards	2017 Number of share awards
At 1 January	7,760,694	7,009,889
Granted	1,640,168	2,232,317
Forfeited	(385,329)	(1,481,512)
(Exercised/Vested)	(3,590,499)	-
At 31 December	5,425,034	7,760,694
Exercisable at 31 December	191,918	-

During 2017 and 2018 grants of awards were made under the LTIP for the issue of shares in 2020 and 2021 respectively. An 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 77.

On 14 March, 6 June and 11 September 2018 grants of awards were made under the LTIP for the issue of up to 1,468,680 shares, 88,450 shares and 83,038 shares respectively in 2021. On 15 March, 17 August and 8 December 2017 grants of awards were made under the LTIP for the issue of up to 2,130,370 shares, 86,500 shares and 15,447 shares respectively in 2020.

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.

25 Share-based payment plans continued

The following table lists the inputs to the model:

	2018			2017		
	Shares with a 11 September 2018 grant date	Shares with a 6 June 2018 grant date	Shares with a 14 March 2018 grant date	Shares with a 8 December 2017 grant date	Shares with a 17 August 2017 grant date	Shares with a 15 March 2017 grant date
Number of awards	83,038	88,450	1,468,680	15,447	86,500	2,130,370
Fair value at grant date	210.2p	218.9p	189.8p	187	187	156
Share price at grant date	252.5p	263.0p	228.0p	224	221	182
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil
Expected volatility	32.7%	32.7%	32.7%	40%	40%	40%
Expected weighted average life at 31 December (years)	2.7	2.6	2.2	2.9	2.6	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 historical share price movements.

On 14 March 2018 and 6 June 2018 42,831 and 39,780 (15 March 2017: 58,275) 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 14 March, 6 June and 11 September 2018 (15 March, 17 August and 8 December 2017) LTIP grants.

The performance conditions of the Long Term Incentive Plan awards issued in 2014 and 2015 that reached the end of their performance periods in 2018 were met in full and shares were allocated to award holders from existing shares held by an Employee Benefit Trust for nil consideration.

The performance conditions of the LTIP grant made in 2014 that reached the end of their performance periods in 2017 were not met and, accordingly, no ordinary shares were issued during 2017 in connection with these awards LTIP.

b) Restricted Share Plan

On 18 March 2015, the Group granted 1,015,000 shares under the restricted share plan. The award was a contingent right to receive shares on the third anniversary of the date of the grant subject to achievement of predetermined performance criteria. Half of the award was 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 was 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. The performance conditions associated with the vesting on the third anniversary were met and shares were allocated to award holders from existing shares held by an Employee Benefit Trust for nil consideration.

On 18 March 2015 50,000 shares were granted to a senior executive. The award was subject to the same criteria as the 18 March RSP grant. The performance conditions associated with the vesting on the third anniversary were met and the cash equivalent of the value of awarded shares was settled in cash during the year.

On 30 December 2016 44,465 shares were granted to a senior executive. The award is a contingent right to receive shares with 50% vesting on completion of a 0.21 year period and the remaining 50% vesting one year later subject to continued employment with the Group. The fair value of the shares at the grant date was 156.0p. Following completion of the vesting periods, 22,232 shares vested in 2017 and the remaining 22,233 vested in 2018.

On 14 March 2018 the Group granted 30,735 shares under the restricted plan. The award is subject to continuing employment with the Group, with one third vesting on the first anniversary and two thirds vesting on the second anniversary of the date of the grant.

On 6 June 2018 the Group granted 73,717 shares under the restricted plan. The award is subject to continuing employment with the Group, with one third vesting on the first anniversary and two thirds vesting on the second anniversary of the date of the grant.

Notes to the consolidated financial statements continued

25 Share-based payment plans continued

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

	2018	2017
	Number of share awards	Number of share awards
At 1 January	962,770	1,165,502
Granted	104,452	-
Forfeited	-	(180,500)
Vested	(962,770)	(22,232)
At 31 December	104,452	962,770
Exercisable at 31 December	-	-

c) Sharesave schemes

The Group operates a Sharesave scheme for participating employees in the UK under a three-year plan. 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 in any one year. Monthly contributions are saved with Lloyds Bank 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 three years from commencement of the savings contract. Options become exercisable on completion of the three year term or within six months of leaving in certain circumstances.

	Date price set	Market price	Option price	Options outstanding
UK	22 September 2015	130.0p	131.0p	105,438
UK	25 August 2016	153.0p	123.0p	590,223
UK	24 August 2017	220.5p	178.0p	524,144
UK	31 August 2018	260.0p	215.0p	647,450

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

pence	2018	2017
	76.0	86.0

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

	2018	2017
	Number of share awards	Number of share awards
At 1 January	1,723,670	2,145,551
Granted	662,686	598,718
Forfeited	(135,002)	(350,663)
Exercised	(384,099)	(669,936)
At 31 December	1,867,255	1,723,670
Exercisable at 31 December	107,049	115,694

25 Share-based payment plans continued

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 credit of £0.4 million (2017: £1.4 million charge) arising from the above share scheme plans was £3.1 million (2017: £4.1 million).

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

Emillion	Net cash	Borrowings and finance leases	Unamortised loan arrangement fees	Net (debt)/funds
At 1 January 2017	49.8	(105.2)	-	(55.4)
Cash flow	(2.8)	-	-	(2.8)
Repayment of borrowings	-	119.1	-	119.1
Proceeds from borrowings	-	(13.9)	-	(13.9)
Finance lease payments	-	0.3	-	0.3
Amortisation of loan arrangement fees	-	(0.3)	-	(0.3)
Reclassification of loan arrangement fees	-	(1.1)	1.1	-
Exchange differences	(0.5)	0.5	-	-
At 1 January 2018	46.5	(0.6)	1.1	47.0
Cash flow	(6.4)	-	-	(6.4)
Businesses acquired	-	(10.3)	-	(10.3)
Repayment of borrowings	-	15.0	-	15.0
Proceeds from borrowings	-	(86.7)	-	(86.7)
Finance lease payments	-	0.3	-	0.3
Amortisation of loan arrangement fees	-	(0.4)	-	(0.4)
Reclassification of loan arrangement fees	-	1.1	(1.1)	-
Exchange differences	0.5	(0.7)	-	(0.2)
At 31 December 2018	40.6	(82.3)	-	(41.7)

Net cash includes overdraft balances of £nil (2017: £nil).

27 Contingent liabilities

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 20, the Directors consider the likelihood of any other claims giving rise to a significant liability to be remote.

28 Capital commitments

Emillion	2018	2017
Contractual commitments for the purchase of property, plant and equipment	2.0	0.8

Notes to the consolidated financial statements continued

29 Operating leases

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

£million	2018	2017
Fixtures and equipment	0.3	0.3
Land and buildings	4.0	3.6

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

£million	2018	2017
In less than one year	4.8	2.6
Between one and five years	12.4	6.7
After five years	3.6	4.0

30 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 2018 or 2017 that have affected the financial position or performance of the Group.

Key management personnel and Directors' emoluments are disclosed in note 12. Details of retirement benefit schemes are disclosed in note 23.

Company statement of financial position

at 31 December 2018

Emillion	Note	2018	2017
Fixed assets			
Tangible assets	2	1.0	1.0
Intangible assets	2	4.4	4.6
Investments	3	188.3	164.6
Deferred tax asset	11	2.8	2.7
Pensions	10	24.7	15.1
		221.2	188.0
Current assets			
Debtors	4	117.3	110.2
Cash at bank and in hand		4.9	6.6
Current liabilities		122.2	116.8
Borrowings	6	0.3	0.3
Creditors: amounts falling due within one year	5	196.9	128.2
Net current assets		(75.0)	(11.7)
Total assets less current liabilities		146.2	176.3
Borrowings	6	–	0.3
Deferred tax liability	11	4.2	2.6
Net assets		142.0	173.4
Capital and reserves			
Called up share capital	7	40.8	40.7
Share premium account	8	3.4	2.9
Merger reserve		3.4	3.4
Profit and loss account	9	94.4	126.4
Shareholders' funds		142.0	173.4

Approved by the Board of Directors on 5 March 2019 and signed on their behalf by:



Richard Tyson
Director



Mark Hoad
Director

Company statement of changes in equity

for the year ended 31 December 2018

Emillion	Share capital	Share premium	Merger reserve	Profit and loss account	Total
At 1 January 2017	40.6	2.1	3.4	141.9	188.0
Loss for the year	-	-	-	(13.7)	(13.7)
Other comprehensive income					
Remeasurement of defined benefit pension schemes	-	-	-	10.2	10.2
Tax on remeasurement of defined benefit pension schemes	-	-	-	(1.7)	(1.7)
Total other comprehensive income	-	-	-	8.5	8.5
Transactions with owners recorded directly in equity					
Dividends paid by the Company	-	-	-	(9.1)	(9.1)
Share-based payments	-	-	-	4.0	4.0
Purchase of shares	-	-	-	(6.2)	(6.2)
Deferred tax on share-based payments	-	-	-	1.0	1.0
New shares issued	0.1	0.8	-	-	0.9
At 31 December 2017	40.7	2.9	3.4	126.4	173.4
Loss for the year	-	-	-	(24.6)	(24.6)
Other comprehensive income					
Remeasurement of defined benefit pension schemes	-	-	-	9.7	9.7
Tax on remeasurement of defined benefit pension schemes	-	-	-	(1.7)	(1.7)
Total other comprehensive income	-	-	-	8.0	8.0
Transactions with owners recorded directly in equity					
Dividends paid by the Company	-	-	-	(9.7)	(9.7)
Share-based payments	-	-	-	(3.8)	(3.8)
Purchase of shares	-	-	-	(0.9)	(0.9)
Deferred tax on share-based payments	-	-	-	(1.0)	(1.0)
New shares issued	0.1	0.5	-	-	0.6
At 31 December 2018	40.8	3.4	3.4	94.4	142.0

Notes to the Company financial statements

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.

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; and
- comparative movement tables for tangible and intangible fixed assets.

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.

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 10 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions, including future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate. The pension deficit has been calculated using the assumptions set out in note 23 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.

c) Going concern

Details of the Director's assessment of the Company's ability to continue in operational existence for at least twelve months from the date of signing these financial statements are shown in note 1 of the Consolidated financial statements and in the Governance and Directors' Report on page 59.

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.

Notes to the Company financial statements continued

2 Tangible and intangible fixed assets

£million	Intangible assets	Plant, equipment and vehicles
Cost		
At 1 January 2018	16.6	1.1
Transfers	-	-
Additions	1.8	0.2
Disposals	-	-
At 31 December 2018	18.4	1.3
Depreciation		
At 1 January 2018	12.0	0.1
Charge for the year	1.7	0.2
Disposals	-	-
Impairment	0.3	-
At 31 December 2018	14.0	0.3
Net book value		
At 31 December 2018	4.4	1.0
At 31 December 2017	4.6	1.0

Included within intangible fixed assets are assets under construction with a carrying value of £1.0 million (2017: £1.4 million).

3 Investments

£million	Subsidiary undertakings
Cost	
At 1 January 2018	206.2
Additions	45.8
At 31 December 2018	252.0
Provisions	
At 1 January 2018	41.6
Impairment	22.1
At 31 December 2018	63.7
Net book value	
At 31 December 2018	188.3
At 31 December 2017	164.6

The Company's subsidiary undertakings and their locations are shown in note 14. Shareholdings are held indirectly for all principal operating subsidiary undertakings.

During the year the Company acquired the entire equity share capital of Stadium Group plc for £45.8 million in cash. During the year the company reduced the carrying value of an investment to its recoverable amount recognising an impairment of £22.1 million.

4 Debtors

£million	2018	2017
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	115.5	106.3
Prepayments, accrued income and other receivables	1.8	3.9
	117.3	110.2

5 Creditors

£million	2018	2017
Amounts falling due within one year		
Trade creditors	2.2	1.2
Amounts owed to subsidiary undertakings	187.2	119.3
Taxation and social security	1.6	0.8
Accruals and deferred income	5.9	6.9
	196.9	128.2

6 Borrowings

£million	Current	Non-current	Total
At 31 December 2018			
Finance leases	0.3	–	0.3
At 31 December 2017			
Finance leases	0.3	0.3	0.6

7 Share capital

£million	2018	2017
Issued, called up and fully paid		
163,354,090 (2017: 162,917,134) ordinary shares of 25p each	40.8	40.7

The performance conditions of the Long Term Incentive Plan awards issued in 2014 and 2015 that reached the end of their performance periods in 2018 were met and shares were allocated to award holders from existing shares held by an Employee Benefit Trust for nil consideration.

During the period the Company issued 436,956 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.6 million, which was represented by a £0.1 million increase in share capital and a £0.5 million increase in share premium.

8 Share-based payments

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

9 Loss for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its profit and loss account for the year. The loss after tax of the Company for the year was £24.6 million (2017: £13.7 million loss). The auditor's remuneration for audit services is disclosed in note 7 to the Consolidated financial statements. The Company's distributable reserves comprise the balance of the profit and loss account of £94.4 million (2017: £126.4 million).

Notes to the Company financial statements

continued

10 Pension schemes

Defined benefit scheme

The triennial valuation of the pension scheme as at April 2016 showed a deficit of £46.0 million against the Trustee's funding objective compared with £19.1 million at April 2013. The Company has agreed additional fixed contributions through to 2020 based on the actuarial deficit at April 2016. These planned contributions amount to £5.1 million and £3.9 million to be paid over the next two years. In addition, the Company has set aside £2.5 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 23 to the Group financial statements.

Defined contribution scheme

The Company operates a Group personal pension plan for employees and pays contributions to administered pension insurance plans. The Company has no further payment obligation once the contributions have been paid. Payments to the defined contribution scheme are charged as an expense as they are incurred. The total contributions charged by the Company including employee salary exchange contributions in respect of the year ended 31 December 2018 were £0.5 million (2017: £0.5 million).

11 Deferred tax

The deferred tax asset of £2.8 million comprises £1.2 million in respect of share-based payments (2017: £2.7 million) the movement in which has been recognised in profit (£0.5 million) and equity (£1.0 million); £1.3 million in respect of non-current assets (2017: £nil) the movement in which has been recognised in profit (£1.3 million); and £0.3 million in respect of tax losses the movement in which has been recognised in profit (£0.3 million).

The deferred tax liability of £4.2 million is in respect of the pension asset (2017: £2.6 million), the movement in which has been recognised in equity (£1.6 million charge).

12 Commitments under operating leases

The Company has outstanding commitments under non-cancellable operating leases of £0.6 million (2017: £0.7 million), £0.2 million (2017: £0.2 million) falling due in one year and £0.4 million (2017: £0.5 million) falling due between two and five years.

13 Related party transactions

During 2018 and 2017, the Company did not have any related party transactions other than with wholly owned subsidiaries.

14 Subsidiary undertakings

The following entities are 100% owned with only ordinary shares in issue, unless otherwise stated. The country of incorporation matches the country in which the registered office/principal place of business is located.

Name of subsidiary undertaking	Registered office/ principal place of business
TT Electronics Ltd	(1)
Stadium Asia Limited	(2)
AB Electronics (Suzhou) Co., Ltd	(3)
Dongguan Arlec Electrical Products Co. Limited (capital contribution)	(4)
Shanghai Hongbian Electronics Co. Limited (capital contribution)	(5)
Taishan Precision International Co. Limited	(6)
TT Electronics Integrated Manufacturing Services (Suzhou) Co., Ltd	(3)
Ying Si Ke Electrical Products Co. Limited (capital contribution)	(4)
TT Electronics SAS	(7)
TT Electronics GmbH	(8)
Precision International Holdings Limited	(9)
STMC Limited	(2)
TT Electronics Srl	(10)
BI Technologies Corporation SDN BHD (ordinary and preference shares)	(11)
BI Technologies S.A. de C.V.	(12)
Optron de Mexico S.A. de C.V.	(13)
TT Electronics Integrated Manufacturing Services SRL	(14)
TT Electronics Asia Pte Ltd	(15)

14 Subsidiary undertakings continued

Name of subsidiary undertaking	Registered office/ principal place of business
SGW Sweden AB	(16)
Aero Stanrew SARL (99.6% owned)	(17)
AB Connectors Limited	(18)
AB Electronic Components Limited	(19)
Abtest Limited	(20)
Aero Stanrew Group Limited (ordinary and preference shares) ^{1,2}	(21)
Aero Stanrew Limited	(21)
Automotive Electronic Systems Limited ¹	(19)
BI Technologies Limited ²	(19)
Cable Realisations Limited (in liquidation)	(19)
Commendshaw Limited ¹	(19)
Controls Direct Limited ²	(19)
Crystalate Electronics Limited	(19)
Dale Electric International Limited ^{1,2}	(19)
Deltight Washers Limited ²	(19)
Ferrus Power Limited ²	(19)
Fox Industries Limited ²	(19)
Hale End Holdings Limited ²	(19)
Kingslo Limited ²	(19)
KRP Power Source (UK) Limited ²	(19)
Linton and Hirst Group Limited ²	(19)
Midland Electronics Limited	(19)
MMG Linton and Hirst Limited ²	(19)
New Chapel Electronics Limited	(22)
Nulectrohms Limited ²	(19)
Rodco Limited (60% owned) ^{1,2}	(19)
Roxspur Measurement & Control Limited	(19)
Semelab Limited	(23)
Sensit Limited ²	(19)
Stadium Electrical Holdings Limited ²	(19)
Stadium Electronics Limited ²	(19)
Stadium Group Limited ¹	(19)
Stadium IGT Limited	(19)
Stadium Power Limited	(19)
Stadium United Wireless Limited	(19)
Stadium Wireless Devices Limited ²	(19)
Stadium Zirkon UK Limited ²	(19)
Stontronics Limited	(19)
The Brearley Group Limited ²	(19)
TT Asia Holdings Limited	(19)
TT Automotive Electronics Limited ²	(19)
TT Electronics (123) Limited	(19)
TT Electronics Europe Limited ^{1,2}	(19)
TT Electronics Group Holdings Limited ²	(19)

Notes to the Company financial statements

continued

14 Subsidiary undertakings continued

Name of subsidiary undertaking	Registered office/ principal place of business
TT Electronics Holdco Limited	(19)
TT Electronics Integrated Manufacturing Services Limited	(19)
TT Group Limited ²	(19)
TT Power Solutions Limited ²	(19)
TTE Trustees Limited ^{1,2}	(19)
TTG Investments Limited ¹	(19)
TTG Nominees Limited ^{1,2}	(19)
TTG Pension Trustees Limited ^{1,2}	(19)
TTG Properties Limited ¹	(19)
TT-UR Precision Resistors Limited	(19)
Valuegolden Limited ²	(19)
Welwyn Components Limited	(24)
Welwyn Electronics Limited ²	(19)
Wolsey Comcare Limited ²	(19)
Zirkon Holdings Limited ²	(19)
AB Interconnect, Inc.	(25)
Apsco Holdings, Inc	(25)
BI Technologies Corporation	(25)
Cletronics N.A. Inc.	(26)
International Resistive Company Inc	(25)
International Resistive Company of Texas, LLC	(27)
Optek Technology Inc	(25)
Precision, Inc	(28)
Shallcross Inc.	(25)
Stadium Group, Inc	(26)
TT Electronics, Inc	(25)
TT Electronics Integrated Manufacturing Services, Inc	(29)
TT Group Industries, Inc.	(25)

14 Subsidiary undertakings continued

- (1) Newton Industrial Park, Christchurch, Barbados, West Indies
- (2) Unit A, 3/F, Bamboos Centre, 52 Hung To Road, Kwun Tong, Kowloon, Hong Kong
- (3) 158-24 Hua Shan Road, Snd Suzhou, 215129, China
- (4) 4th Building, F Zone, Zheng Wei Science Park, Dongkeng Town, Dongguan City, Guangdong, China
- (5) Room 404-A69, East of Building 1, 29 Jia Tai Road, China (Shanghai) Pilot Free Trade Zone, China
- (6) 4/F No 132 Fu Cheng Avenue, Taishan City, China
- (7) 4 place Louis Armand, 75012 Paris, France
- (8) Max-Lehner-Strasse 31, 85354, Freising, Germany
- (9) Room RA21, 6th Floor, Woon Lee Commercial Building, No. 7-9 Austin Avenue, Tsim Sha Tsui, Kowloon, Hong Kong
- (10) Via Santa Redegonda N. 11, Milano, Italy
- (11) Lot 6.05, Level 6, KPMG tower, 8 First Avenue, Bandar Utama 47800 Petaling Jaya, Selangor, Darul Ehsan, Malaysia
- (12) Ave Circulo de la Amistad No.102, Parque Industrial Mexicali IV, Mexico
- (13) Ave Rio Bravo 1551-a, Parque Industrial Rio Bravo, CD. Juarez Chihuahua, Mexico
- (14) Remetea Mare, nr. 637, Olympian Park Timisoara, Hala 4, Partea B, DN6/E70, Timis County, 307350, Romania
- (15) 2 Shenton Way, #18-01 SGX Centre 1, 068804, Singapore
- (16) Gullfossgratan 3, 164 40 Kista, Sweden
- (17) 60 avenue de l'Uma, La Soukra 2036, Tunisia
- (18) Abercynon, Mountain Ash, Rhondda Cynon Taff, CF45 4SF, Wales
- (19) Fourth Floor, St Andrews House, West Street, Woking, Surrey, GU21 6EB, England
- (20) Unit 1, Tregwilym Industrial Estate, Rogerstone, Newport, Gwent, NP10 9YA, Wales
- (21) Unit 1 Gratton Way, Roundswell Business Park, Barnstaple, Devon, EX31 3AR, England
- (22) London Road, Fairford, Gloucestershire, GL7 4DS, England
- (23) Coventry Road, Lutterworth, Leicestershire, LE17 4JB, England
- (24) Welwyn Electronics Park, Bedlington, Northumberland, NE22 7AA, England
- (25) Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, United States
- (26) CT Corporation System, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States
- (27) Corporation Service Company, 211 East 7th Street, Suite 620, Austin, TX 78701-3218, United States
- (28) 1700 Freeway Boulevard, Minneapolis, MN 55430, United States
- (29) CT Corporation System, 4400 Easton Commons Way, Suite 125, Columbus, OH43219, United States

1. Shares held directly by TT Electronics plc
2. Dormant UK subsidiary

Five-year record

Emillion (unless otherwise stated)	2018	2017 ¹	2016 ²	2015	2014
Revenue	429.5	361.1	332.7	509.9	524.3
Operating profit ³	33.4	24.3	20.6	21.7	29.2
Profit before taxation ³	31.5	22.0	16.1	19.2	27.6
Earnings ³	26.2	19.4	10.3	14.0	20.5
Earnings per share (p) ³	16.2	10.9	6.4	8.8	12.9
Dividends – paid and proposed	10.5	9.4	9.0	8.9	8.7
Dividend per share – paid and proposed (p)	6.5	5.8	5.6	5.5	5.5
Average number of shares in issue	161.8	161.7	162.2	159.2	158.3
Net funds/(debt)	(41.7)	47.0	(55.4)	(56.1)	(14.3)
Total equity	279.5	304.1	233.4	187.4	187.8

Notes

(1) Results for 2017 have been re-stated for IFRS 15.

(2) Results for 2016 have been re-stated for IFRS 15 and re-presented to exclude discontinued operations.

(3) Operating profit, profit before taxation, earnings and earnings per share exclude the impact of restructuring costs, asset impairments and acquisition and disposal related costs.

Additional information

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.

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).

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.

EBITDA

Definition: EBITDA is defined as underlying operating profit, excluding depreciation of property, plant and equipment and amortisation of intangible assets charged to underlying operating profit.

Glossary

3D	3 dimensional	IASB	International Accounting Standards Board
AGM	Annual General Meeting	IFRS	International Financial Reporting Standards
AIM	Alternative Investment Market	IT	Information Technology
BE Inspired	a TT initiative to deliver improved employee performance	KPI	Key Performance Indicator
BE Lean	a TT initiative to improve operational efficiency	LIBOR	London Interbank Offered Rate
BE TT	Build Expertise in TT	LLP	Limited liability partnership
bn	billion	LTIP	Long Term Incentive Plan
bps	basis point	MLP	Master Lean Practitioner
CAGR	Compound Annual Growth Rate	M&A	Mergers and Acquisitions
CEO	Chief Executive Officer	NED	Non-Executive Director
CFO	Chief Financial Officer	OECD	Organisation for Economic Co-operation and Development
CGU	Cash Generating Unit	OEM	Original Equipment Manufacturer
CPI	Consumer Prices Index	PBT	Profit Before Tax
CREST	Certificateless Registry for Electronic Share Transfer	PCB	Printed Circuit Board
CSR	Corporate and Social Responsibility	PCBA	Printed Circuit Board Assembly
DEFRA	Department for Environment, Food and Rural Affairs	PLC	Public Limited Company
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation	Q	Quarter (year)
EBT	Employee Benefit Trust	R&D	Research and Development
EICC	Electronics Industry Citizenship Coalition	RBA	Responsible Business Alliance
EMB	Executive Management Board	RMB	Chinese Yuan
EPS	Earnings Per Share	RNS	Regulatory News Service
EU	European Union	ROI	Return on Investment
EVP	Executive Vice President	ROIC	Return on Invested Capital
factory 4.0	fourth revolution in manufacturing	RPI	Retail Price Index
FRC	Financial Reporting Council	RSP	Restricted Share Plan
FRS	Financial Reporting Standards	SERPS	State Earnings-Related Pension Scheme
FTSE	Financial Times Stock Exchange	SMMT	Society of Motor Manufacturers & Traders
GBP	Pounds Sterling (£)	STEM	Science, Technology, Engineering and Mathematics
GDPR	General Data Protection Regulation	the Board	The Board of Directors of TT Electronics plc
GMP	Guaranteed Minimum Pension	the Code	UK Corporate Governance Code
GMS	Global Manufacturing Solutions	the Company	TT Electronics plc
H	Half (year)	the Directors	The Directors of TT Electronics plc
HMI	Human Machine Interface	the Group	TT Electronics plc and its subsidiaries
HR	Human Resources	TSR	Total Shareholder Return
HSE	Health Safety & Environmental	TT	TT Electronics plc
IAS	International Accounting Standards	UK	United Kingdom of Great Britain and Northern Ireland
		USA/US	United States of America

Shareholder information

Annual General Meeting

The Annual General Meeting will be held on 9 May 2019 at 10.00am at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD.

Results

Announcement of 2019 half year results – mid-August 2019.

Preliminary announcement of 2019 results – mid-March 2020.

Annual Report 2019 – to be posted mid-April 2020.

Dividends

For the year ending 31 December 2018, the Board has recommended increasing the final dividend to 4.55 pence per share. This, when combined with the interim dividend of 1.95 pence per share, gives an increased total dividend of 6.5 pence per share (2017: 5.8 pence per share). Payment of the final dividend will be made on 17 May 2019 to shareholders on the register on 26 April 2019.

Multiple accounts on the shareholder register

If you have received two or more copies of this document, this means that there is more than one account in your name on the shareholder register. This may be caused by either your name or address appearing on each account in a slightly different way. For security reasons, the Registrars will not amalgamate the accounts without your written consent.

If you would like any multiple accounts combined into one account, please write to Equiniti Limited at the address given below.

Share dealing services

Shareview Dealing is a telephone and internet service provided by Equiniti. It offers a simple and convenient way of buying and selling TT Electronics plc shares.

Log on to www.shareview.co.uk/dealing or call 0845 603 7037 between 8.00 am and 4.30 pm, Monday to Friday (except bank holidays), for more information about this service and for details of the rates and charges. Please note that telephone lines remain open until 6.00 pm for enquiries.

A weekly postal dealing service is also available and a form together with terms and conditions can be obtained by calling 0371 384 2248*. Commission is 1.75 per cent with a minimum charge of £60.

ShareGift

ShareGift is a charity share donation scheme for shareholders, administered by The Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomical to sell on a commission basis. Further information can be obtained at www.sharegift.org or from Equiniti.

Shareholder enquiries

Equiniti maintain the register of members of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone 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

* Lines are open from 8.30 am to 5.30 pm, Monday to Friday (except bank holidays).

Website

Information on the Group's financial performance, activities and share price is available at www.ttelectronics.com

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For more information on
our business please visit
www.ttelectronics.com

