



Transforming our Group

TT Electronics plc
Annual Report and Accounts 2017

“We are delighted with both the strong trading performance and the disposal of the Transportation division. TT is becoming a higher margin, higher quality business with increased investment capacity to accelerate growth.”

Richard Tyson
Chief Executive Officer

Headline performance*

Revenue

£360.0m

2016: £332.7m
+5%²

Free cash flow^{3,5}

£4.7m

2016: £13.8m
-66%

Underlying EPS¹

10.9p

2016: 7.8p
+30%²

Underlying operating profit¹

£24.3m

2016: £20.6m
+12%²

EPS

9.7p

2016: 7.3p
+23%²

Operating profit

£20.0m

2016: £18.8m
+1%²

Net funds/(debt)

£47.0m

2016: £(55.4)m
+185%

Dividend⁴

5.8p

2016: 5.6p*
+4%

Strategic progress

- Portfolio transformation: disposal of Transportation division for £123.2 million in October 2017
- Pivotal year for TT with strong revenue and profit growth
- Realising benefits of management actions started in 2015
 - Increased customer focus: new customer wins and sales to existing customers;
 - New products launched: increased R&D investment underpinning future growth; and
 - Continuing BE Lean activities: benefits to our operations and customer performance
- All three divisions delivered organic revenue growth
- Recommended cash offer for Stadium Group plc announced in February 2018

Financial headlines

- 5% organic revenue growth from good sales performance and increased market demand
- Underlying operating profit up 12%, PBT up 28% at constant currency
- Underlying operating margins increased to 6.8%, up by 60 basis points
- Excellent underlying cash conversion at 98%
- 140 basis points increase in return on invested capital to 10.6%

* Continuing operations

(1) Underlying change before restructuring costs and acquisition cost

(2) Change at constant currency calculated by comparing current year actual results to the prior year results retranslated at current year actual exchange rates

(3) Net cash flow from operating activities less net cash flow from investing activities less interest paid

(4) Interim dividend combined with final proposed dividend

(5) Free cash flow includes cash flow from discontinued operations

Our year in review

Read more about what we did in 2017 on our website www.ttelectronics.com



Divestment of Transportation division

Transportation division sold to AVX Corporation in October 2017 for £123.2 million, creating increased financial capacity to continue to invest in TT's future growth.

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for more information

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New products launched in 2017

Including four new products launched in the current sensing, circuit protection and signal conditioning business, responding to customer demand for smaller and lighter components, and extended capabilities to protect circuits from greater power surges.

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for more information

Strategic partnership and multi-year contracts won

Strategic partnership and multi-year contracts won with a US aerospace and defence OEM in our Global Manufacturing Solutions division.

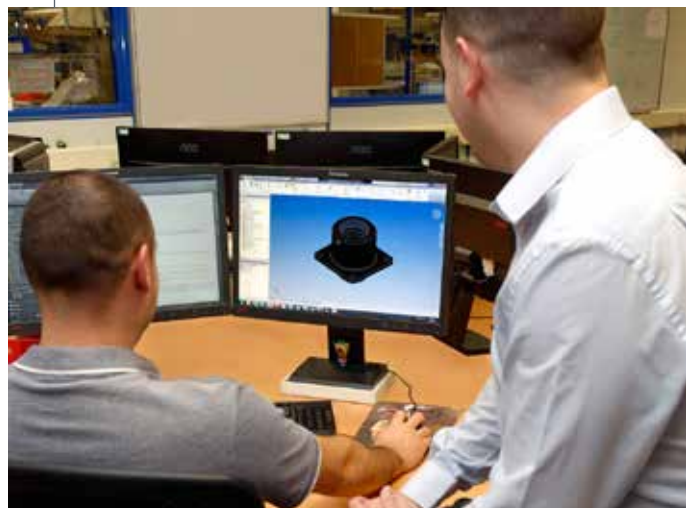
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for more information

£9.5m

Cash spent on R&D

We remain focused on R&D investments to develop solutions to solve our customers' most complex challenges. We increased the cash spend on R&D by 4%.

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for more information





Extending our capabilities following outsourced product lines from a global engine manufacturer

We have launched a range of new devices used in flight critical aerospace applications.

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for more information

4%

Improvement in employee engagement

Improvement in employee engagement alongside excellent response rate of 87 per cent (up from 77 per cent) to our annual employee survey.

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for more information

Acquisition

In the first half of the year we acquired Cletronics, a small US based manufacturer of electromagnetic components for the aerospace industry.

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for more information

Improvement in safety performance

We have again reduced the number of lost time accidents.

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for more information

Success in target medical markets

A number of customer wins for printed circuit board assembly (PCBA), systems integration and cable assemblies in medical markets.

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for more information

£50,000+

Raised by TT for charities globally

Supporting our local communities and charities close to our employees.

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for more information



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TT Electronics at a glance



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Chairman's statement



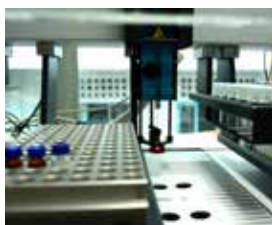
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Additional Information

All metrics in the Strategic report have been restated to reflect the continuing operations of the Group unless otherwise stated. The disposal of the Transportation Sensing and Control (Transportation) division was completed on 2 October 2017.

Well-positioned to serve our customer base

TT Electronics is a global provider of engineered electronics for performance-critical applications. We have years of experience and expertise in engineering; and we provide electronics for application in the harshest environments. Our global footprint provides reach into our key markets and enables us to serve our customers effectively and efficiently.

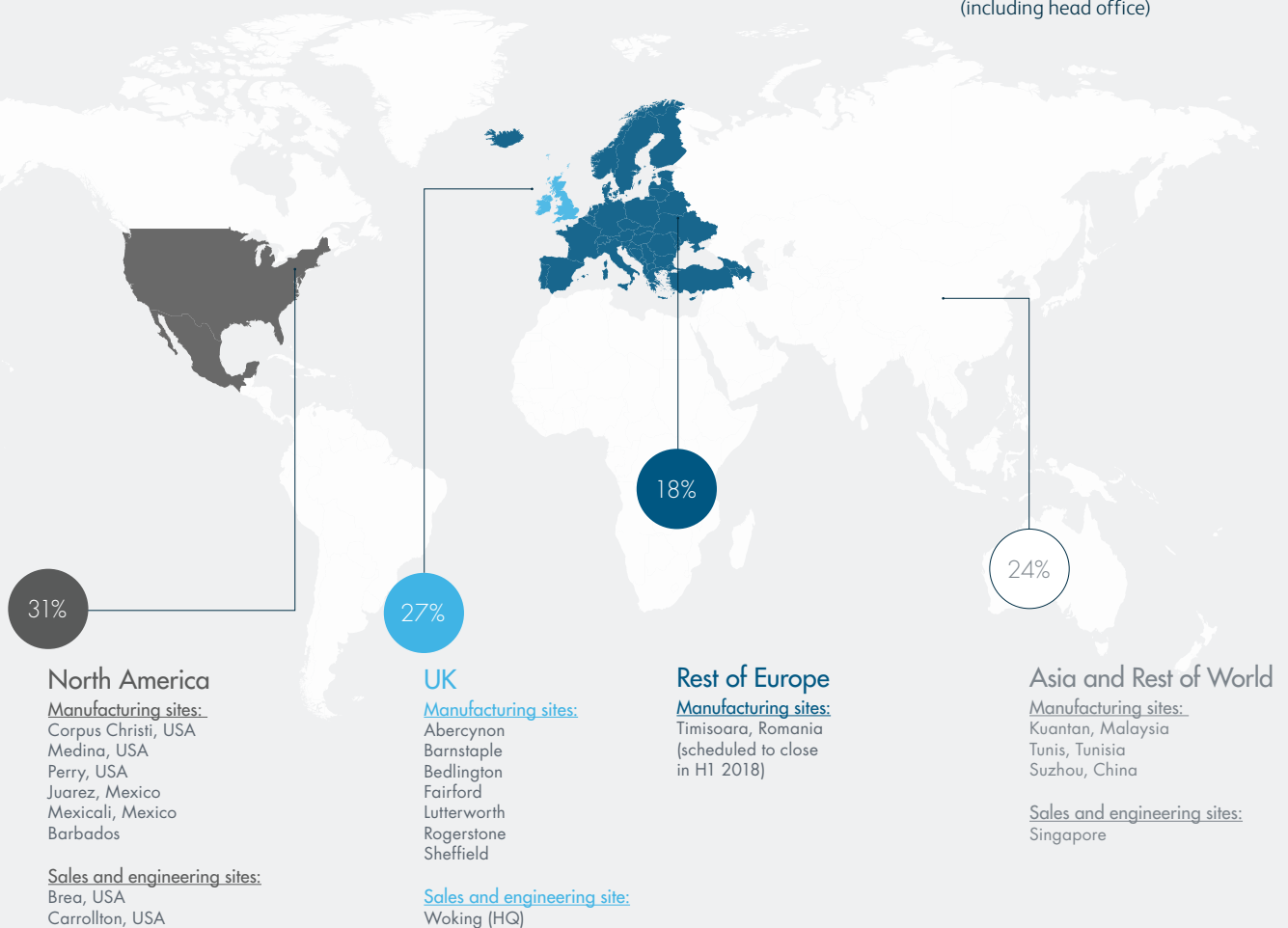
Revenue by region (2017)

17

Manufacturing sites

4

Sales and engineering sites (including head office)



Revenue by Market (2017)



Industrial



Aerospace and defence



Medical



Transportation



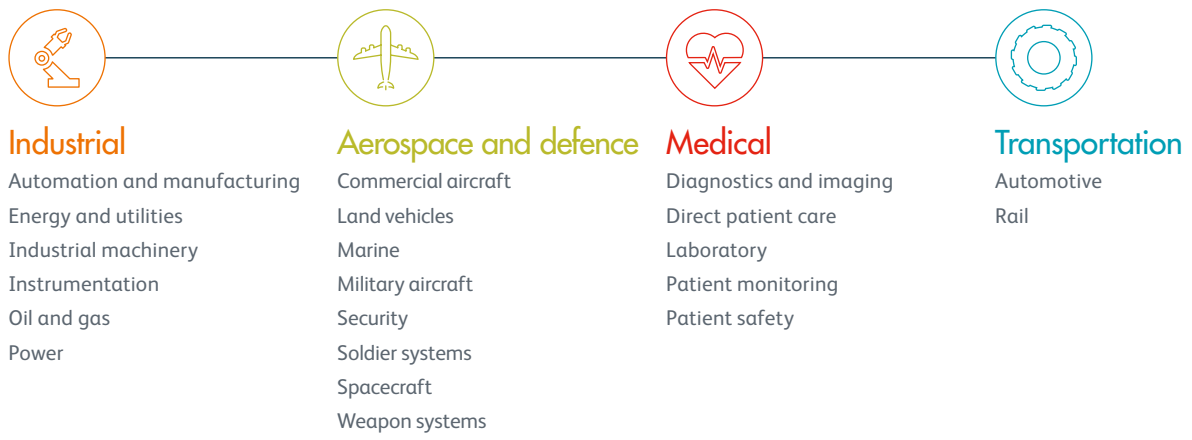
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The markets we serve



Our business



Sensors and Specialist Components

The Sensors and Specialist Components division works with customers to develop both standard and custom solutions that improve the precision, speed and reliability of performance-critical applications in the industrial, medical, transportation and aerospace and defence sectors. We design and manufacture highly engineered parts that solve customer challenges. Our products include circuit protection, current sensing, signal conditioning, optoelectronics, and sensors for torque, position, pressure, flow and temperature.

Group revenue (2017)
39%

Read more on page 30



Power Electronics

The Power Electronics division designs and manufactures specialist, high-reliability electronic components and sub-assemblies for safety-critical applications in harsh environments, typically supplying for power management, engine controls and connectivity systems. We serve major global blue-chip customers in the aerospace and defence, industrial, and transportation markets, focusing on creating value by developing innovative electronic solutions to challenging problems for our customers' electronic systems.

Group revenue (2017)
18%

Read more on page 32



Global Manufacturing

Our OEM customers rely on the capabilities of the Global Manufacturing Solutions division to provide high-mix, low-volume manufacturing solutions from our highly controlled and accredited facilities worldwide. Our solutions go into a wide range of end products, from medical devices, such as mass spectrometry detectors, to power control modules used in rail transport infrastructure, to single-box avionics solutions.

Group revenue (2017)
43%

Read more on page 34

A pivotal year for TT

Neil Carson
Chairman



2017 has been a pivotal year for TT. The business has performed strongly, and the disposal of the Transportation Sensing and Control (Transportation) division has realised value for the benefit of TT and our shareholders.

Strategic development

2017 has been a significant year for us, having disposed of the Transportation division for £123.2 million in October. Under strong leadership, the Transportation division has made significant progress, delivering good sales growth and positive operating margins in TT's last year of ownership. The Board believes that this was the right time to realise the value for the division, following the turnaround in performance. On behalf of the Board, I would like to thank the Transportation leadership team for their contribution to TT and wish them well in their new home with AVX Corporation. Our ability to execute major organisational and portfolio change together with improved financial capacity positions us well to invest and grow the remaining TT Group.

I have been delighted to see the strong performance of the remaining business. TT is a profitable, growing business, with excellent cash conversion. Progress has been made on TT's strategy to build leading positions in markets with structural growth drivers where there is increasing electronic content. By focusing on areas of the market where our industry expertise and focused R&D investment is creating differentiated capabilities, we will help our customers solve their most complex challenges. I have been particularly pleased to see our improved customer focus reflected in a number of new contract wins (see page 8 and pages 30–35). The Board believes that this, in turn, will create profit growth and will position TT to create long-term value for our shareholders. Our strategic focus on enhancing our business development, value-added product solutions and operational excellence, we believe, are the right areas to take TT to the next level.

£123.2m

Consideration for the disposal of the Transportation division

5.8p
dividend

up 4 per cent

“2017 was a pivotal year for TT with the disposal of the Transportation division. We have put ourselves in a strong position to realise TT’s potential and drive growth and value for shareholders.”

At the start of 2018, we took our first step in deploying our increased financial capacity to drive growth for the Group with the recommended cash offer for Stadium Group plc (Stadium). You can read more about the offer on page 9 and page 81.

Our people

We are a people business, and the strong business performance achieved would not be possible without the hard work and commitment of our people across our global operations. We have made good progress launching more new products to market, enhancing our sales organisation and delivering continuous operational improvement. Importantly, we have had another year of progress in our safety performance. On behalf of the Board, I would like to thank all of our employees who have contributed to another successful year in 2017.

Shareholder returns and dividend

We have delivered a strong business performance across the Group. We are growing, our operating margin is up and our cash performance has been excellent. Our strategy is progressing well, and while there remains more to be done, the performance to date is reflected in the strengthened position of the Group.

Given TT’s financial performance, strategic progress and growth prospects for the business, the Board is recommending increasing the final dividend to 4.05 pence per share. This, when combined with the interim dividend of 1.75 pence per share, gives an increased total dividend of 5.8 pence per share for the full year (2016: 5.6 pence per share).

Looking forward

TT is now a different business. Our strategic focus combined with our increased financial capacity to invest in our proven strategy will position TT well to capitalise on the proliferation of electronics in our markets. The Board is confident of strong progress in 2018.



Neil Carson
Chairman
7 March 2018

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.



A year of portfolio transformation and strong profitable growth

Richard Tyson
Chief Executive Officer

2017 was a significant year for TT with strong revenue and profit growth ahead of expectations. In October we transformed the portfolio with the disposal of the Transportation Sensing and Control (Transportation) division for £123.2 million, realising value for the turnaround of the business and return to profit. We now have increased financial capacity and management time to continue to invest in and grow the business. Our enhanced position will allow us to accelerate our strategy to build leading positions in areas of the market where there are structural growth drivers and the proliferation of electronics is driving demand for our products.

Strategic progress

In 2017 we successfully transformed the portfolio while delivering strong organic profitable growth:

- **Portfolio transformation:** With the disposal of the Transportation division, TT is becoming a higher margin, higher quality business, with increased financial capacity to accelerate growth through capital investments and acquisitions.
- **Strong organic profitable growth:** Favourable market conditions combined with a strong sales performance have driven strong growth and margin improvement in the continuing business, with organic growth in all three divisions.

Portfolio transformation

In October we completed the disposal of the Transportation division, realising value for the turnaround of the business and return to profit. Under strong leadership, the Transportation division made significant progress:

- turned-around and returned to profit;
- re-focused R&D efforts on sensing and control for safety, fuel efficiency and emission control;
- achieved sales success in faster growing geographies; and
- broadened its customer base.

The strategic progress that we had achieved enabled us to realise the value for the business earlier than anticipated. The net proceeds on the disposal originally estimated in the circular at £100.7 million are now expected to total £111.0 million with the increase as a result of normal working capital adjustments, together with a substantially lower expected tax burden.

Following the disposal, we restructured our remaining divisions to improve our routes to market, and better serve our customers to support future growth.

2017 performance

2017 was a pivotal year for TT. Following the disposal of the Transportation division, TT is becoming a higher margin, higher quality business with good cash conversion. Business performance was excellent and we delivered organic growth from all three divisions. Our strategy to focus on areas of the market where our industry expertise and R&D investment create strong and differentiated capabilities is delivering results, driving growth and margin improvement.

“2017 was a pivotal year for TT. We are delighted with both the strong trading performance and the disposal of the Transportation division.”



How would you describe the performance of the business in 2017?

I am delighted with the performance of the Group in 2017. All three divisions delivered organic growth, underlying profit before tax grew by more than 25% and our cash conversion was excellent. Following on from a strong business performance in 2016, the excellent business performance in 2017 was delivered in a year when we also transformed our portfolio.

How significant was the disposal of the Transportation division to your strategy?

The disposal of the Transportation division has transformed TT. We were able to realise the value for the turnaround of the division ahead of expectations. We were pleased with the value achieved and as a result, have increased financial capacity to invest in the remaining business which will accelerate our progress.

Why have you chosen to focus on three of your previous strategic priorities for 2018?

Given the progress and financial performance of the Group, we are taking an opportunity to put even more effort and resources behind new product development; business development; and continuing our good work with operational excellence. We intend to develop more value-added solutions, developing more custom assemblies and products, further up the value chain in response to customer demand. We will couple this with extra support for our customer facing teams including training and development for our business development function. In parallel, we will continue our efforts on BE Lean which is well embedded within our organisation and improving the efficiency of our operations.

Chief Executive's strategic review *continued*

Group revenue for 2017 was £360.0 million (2016: £332.7 million) an increase of 8 per cent and 5 per cent excluding the £9.3 million benefit from foreign exchange. Our strong sales performance and improved market demand have contributed to good growth this year. The focus on operational excellence has enabled us to increase capacity and maintain lead times resulting in market share gains in our current sensing, circuit protection and signal conditioning product lines. The Group's order book has improved compared to the same time last year in part because of customers placing orders further ahead than at this time last year.

Underlying operating profit¹ increased by 18 per cent to £24.3 million (2016: £20.6 million), and by 12 per cent excluding a foreign exchange benefit of £1.1 million. Statutory operating profit was £20.0 million (2016: £18.8 million). The improvement was driven by the Sensors and Specialist Components and Power Electronics divisions. Foreign exchange headwinds in the second half were offset by early delivery of efficiency savings post the disposal of the Transportation division. Underlying operating profit margin for the Group has improved by 60 basis points to 6.8 per cent (2016: 6.2 per cent) and return on invested capital increased by 140 basis points to 10.6 per cent (2016: 9.2 per cent). We delivered another year of excellent cash conversion of 98 per cent (2016: 79 per cent) and a free cash inflow of £4.7 million (2016: £13.8 million). Closing net funds at the end of the year were £47.0 million (2016: net debt £55.4 million).

Strong organic profitable growth

All three divisions² delivered organic revenue growth resulting from a combination of market share gains, improved key customer relationships and a good sales performance.

Sensors and Specialist Components revenues were £142.3 million (2016: £129.5 million) an increase of 10 per cent and 6 per cent at constant currency (excluding a £5.0 million positive foreign exchange impact). The increase in revenues was a result of market share gains and positive market demand in Europe and Asia. Underlying operating profit improved to £18.8 million (2016: £15.6 million), an increase of 21 per cent or 15 per cent excluding a £0.7 million foreign exchange benefit. The profitability of the division improved as a result of operational leverage on the organic revenue growth (see page 30)

Power Electronics revenues increased by 14 per cent to £64.2 million (2016: £56.2 million), up 12 per cent on an organic basis including the now complete one-off last time buy activity associated with moving production from Fullerton in the US to our Bedlington facility in the UK. The growth was a result of continued platform growth in aerospace and defence and the ramp up of product lines that were outsourced to us from a global engine manufacturer. Underlying operating profit improved to £6.2 million (2016: £5.0 million), up 24 per cent. The increase was due to operational leverage (see page 32).

Global Manufacturing Solutions revenues increased by 4 per cent to £153.5 million (2016: £147.0 million), with constant currency revenue growth of 2 per cent. Revenue growth was stronger in the second half. There was a favourable foreign exchange impact of £4.2 million. Revenue growth was strong in Asia driven by customers in medical and transportation sectors. Underlying operating profit increased from £6.3 million in 2016 to £6.5 million in 2017. There was a positive foreign exchange impact of £0.4 million. Underlying operating profit improved in the second half as a result of operational leverage on increased revenues. Underlying operating margins were 4.2 per cent (2016: 4.3 per cent) (see page 34).



TT has seen good growth with customers in aerospace and defence

Realising benefits from management actions started in 2015

We delivered strong revenue and profit growth, realising the benefit from management actions we started in 2015 around improving our customer focus, increasing our R&D activities and enhancing our operational efficiency.

Our increased customer focus has resulted in new customer wins and increased sales to existing customers. This includes multi-year contracts won with an aerospace and defence OEM customer in the US for printed circuit board assembly (PCBA) and design for manufacture and testing that will drive growth for the future. In addition, we have identified key customers where we have the potential to develop strategic relationships. We also further developed our strategic supplier relationship with Rolls-Royce for power and control microcircuits.

Our focus on R&D and increased R&D spend has resulted in 16 new products launched in the year. These new product launches will position us for continued growth in years to come. Four of our new products launched were in the current sensing, circuit protection and signal conditioning product lines, an area where our operational efficiency actions have resulted in market share gains and we have benefited from a surge in market demand. We are continuing to see good benefits from our BE Lean programme. During the year, we trained the next cohort of Master Lean Practitioners, using our own BE Lean experts.

Safety is of paramount importance to us and we have seen good progress in our zero harm measures which continue their momentum. Safety performance improved 13 per cent in 2017. Since 2015, lost time accidents have more than halved. Our employees continue to manage and prioritise health and safety and we are now rolling out a behavioural based safety programme as we move into 2018 (see page 25).

- (1) Please see note 8 on page 109 for details on alternative performance measures.
- (2) Prior year segment information has been restated for a change in reporting.

We continue to prioritise the engagement of our employees and making TT a great place to work. We are also conscious of the diversity position across our employee base. 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 4.73 which has continued to improve since the launch of our TT Way behaviours in 2015 (see page 25).

Our markets

We focus our strategy on segments of our four end markets where there are structural growth drivers across industrial, aerospace and defence, medical and transportation markets. TT is well positioned in these markets, with long-standing customer relationships. By focusing on areas of the market where our industry expertise and focused R&D investment are creating differentiated capabilities, we will help our customers solve their most complex challenges.

Across our end markets there are varying growth dynamics. Intermediate sub-systems for a range of our industries are forecast to grow at a 2.1 per cent CAGR from 2015 to 2019, reaching USD\$1.61 billion. As the world becomes ever more interconnected, electronics are proliferating as the level of automation and intelligence in and across devices is multiplying in virtually all spheres of industry, business, infrastructure and our homes with increasing pace. We are focused on end markets that are benefitting from increasing electronic content, ensuring exposure to long term favourable growth trends for the business. Read more on our four market areas on pages 12–13.

Our strategy

Our strategy remains unchanged. We are focused on building leading positions in areas of the market where there are structural growth drivers driving the proliferation of electronics and increased demand for our solutions. We concentrate our time and resources in market areas where our industry expertise and R&D investment creates strong and differentiated capabilities that are valued by our customers.

Following the disposal of the Transportation division, we have increased financial capacity and management time to continue to invest in and grow the business. As a result of the progress we have delivered, we are increasing our investment to step up our existing activities in R&D and business development. These investments will support our ambition to deliver even more value-added solutions to our customers. We will continue our focus on operational excellence that has been delivering results. These priorities support our commitment to solve our customers' toughest electronics challenges by engineering smarter solutions together.

Strategic priorities in 2018

Value-added product solutions

As TT moves to be a higher margin, higher value, and product focused business, the requirement for value-added product solutions, innovation and R&D is increasing. By deploying additional resources in our research and development 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.

Business development

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 will increase our efforts around training and developing our people to promote a solutions-based sales approach and focus on continuing to develop strategic customer relationships.

Operational excellence

We want our customers to recognise TT for our operational excellence. Alongside continuing our BE Lean activities, which have seen success in enabling us to win market share in our current sensing, circuit protection and signal conditioning product lines, we are focused on optimising our operations and taking sensible actions to improve our procurement effectiveness. (see pages 10–11)

Capital deployment

In February 2018, we announced the recommended cash offer for Stadium Group plc (Stadium) for a total consideration of approximately £45.8 million plus net debt acquired of £11.8 million. Stadium is a leading supplier of design led technologies with customers in the industrial, aerospace and defence, medical and transportation sectors. The acquisition will give TT a greater presence in attractive segments; enhanced product capabilities in power electronics and connectivity; extended R&D capabilities; and a complementary customer base providing cross selling opportunities. We look forward to completing the acquisition and welcoming Stadium's employees to TT.

We continue to review sensible acquisition opportunities where we can deploy capital to add complementary capabilities, customers and scope to TT.

Outlook

2017 was a pivotal year for TT. We are delighted with both the strong trading performance and the disposal of the Transportation division. TT is becoming a higher margin, higher quality business with increased investment capacity to accelerate growth.

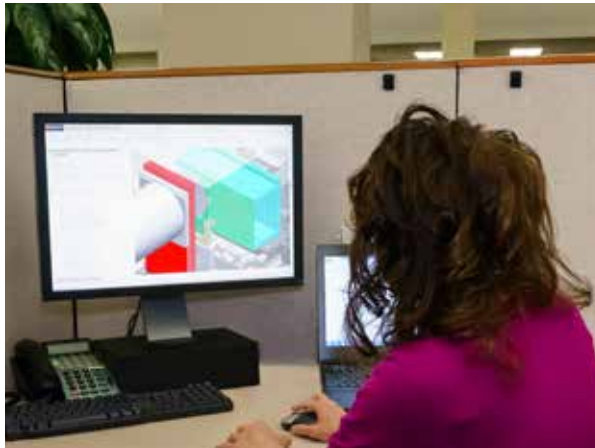
We enter 2018 benefitting from the increasing proliferation of electronics in our markets. We are focusing our resources where we have strong and differentiated capabilities and are again increasing our investment in R&D and business development to maximise this opportunity. Momentum in our operational performance and our improved order book give us confidence, despite current foreign exchange headwinds, of making strong progress in 2018.



Richard Tyson
Chief Executive Officer
7 March 2018

Growth and performance drivers

As a result of the progress we have delivered, we have an opportunity 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.



Value-added product solutions



Business development



Operational excellence

As TT moves to be a higher margin, higher value, and 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.

Monitoring our success

We will measure our success by the value we achieve from our new product launches over the longer term driving organic revenue growth.

We will continue to focus on increasing the amount of time we spend on new product and technology developments, in relation to time spent on sustaining existing product developments.

Link to KPIs

Organic revenue growth
Underlying EPS
R&D spend

Read more on pages 24–25

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 will increase our efforts around training and developing our people to promote a solutions-based sales approach and focus on continuing to develop strategic customer relationships.

Monitoring our success

We will measure our success by organic revenue growth. In 2017, this was 5%, compared to (3)% in 2016.

From 2018, we will focus on training and developing our people to promote our solutions-based sales approach.

Link to KPIs

Organic revenue growth
Underlying EPS
Engagement score

Read more on pages 24–25

We want our customers to recognise TT for our operational excellence. Alongside continuing our BE Lean activities which have seen success in enabling us to win market share in our current sensing, circuit protection and signal conditioning product lines, we are focused on optimising our operations and taking sensible actions to improve our procurement effectiveness.

Monitoring our success

We will measure our success on procurement savings achieved and feedback from our customers on our operational performance.

We will continue to focus on simplifying our supply chain in our indirect spend categories, and continuing to optimise the output from our footprint.

Link to KPIs

Organic revenue growth
Underlying EPS
Cash conversion
Return on invested capital
Safety performance
Engagement score

Read more on pages 24–25

A clear focus on our four end markets



Industrial

The industrial market is a diverse market covering manufacturing, energy and utilities, power, and oil and gas with a large degree of regional variation. The industrial market accounts for 46 per cent of our revenues. The market is benefiting from growth associated with the “smarter home”, “factory 4.0” and higher specification consumer products.

The industrial automation solutions market (including equipment, components and services) is projected to reach US\$283.2 billion by 2018, with mid-single digit growth. Industrial machines and robotics are capable of handling input materials, work-in-progress goods and finished products with increasing precision, speed and flexibility with market demand growing for even more dextrous capabilities to adjust to situational variations. This requires sensors and controls to be ever more precise, as well as interconnected, capabilities that we have at TT. Read more about where we are focused on page 14.



Aerospace and defence

Aerospace and defence accounts for 22 per cent of TT’s revenues. We are seeing market growth from “the more electric aircraft” alongside demand for “miniaturisation” of electrical components and assemblies with reduced size, weight and power consumption. This trend is gaining momentum as hydraulic systems are replaced or backed up with electrically-powered equivalents. Power and sensing electronics are playing a key part in enabling progress in the value chains of key applications including engine management, flight-surface actuation, landing gear actuation and flight control avionics.

The global market for electrical on-aircraft systems was estimated to be £10.4 billion in 2014, forecast to grow to £13.7 billion by 2020, a CAGR of 4.6 per cent. Electrical systems require advances in power electronics to handle the ever-increasing loads, and the need to dissipate, or put to use, excess heat between the electrical power chain. Growth in key segments of aircraft electronics, such as avionics systems, aircraft fuel management systems and flight management systems, for all of which TT engineers components, is expected to be mid-single digit over the next five years. Read more about where we are focused on page 15.

Sources: Custer Consulting Group 06-2016, IC Insights 12-2015; ZVEI, 2015; PwC Autofacts Q2/2016 release; Industry ARC, 2015–08, Markets and Markets; Roland Berger, Aircraft Electrical Propulsion – The Next Chapter of Aviation, 2017; E-mobility index, Q2 2017, Roland Berger



Medical

20 per cent of our revenue is from the medical market, with offerings including diagnostics and imaging, direct patient care and patient monitoring and safety. The medical market is experiencing increased demand for more sophisticated diagnostic, imaging and monitoring equipment as a result of a constant drive towards improved patient safety. The market is benefiting from innovation as stakeholders, including patients and medical professionals expect unprecedented effectiveness and convenience with greater access to data. Sensors and controls that enable a variety of equipment and devices have a key role to play in the transformation towards "Healthcare 4.0".

The medical electronics market is estimated to grow at a CAGR of 5.4 per cent between 2016 and 2022, reaching USD\$4.41 billion. Driving factors include the growing elderly population, the rise of increasingly unhealthy lifestyles, and technological developments including the portability of equipment. An aging population combined with a growing focus from the general public and private organisations towards public access for defibrillation equipment is driving growth ahead of the wider medical electronics market at a CAGR of 7.3 per cent from 2016 to 2021. Read more about where we are focused on page 16.



Transportation

Electronics for the transportation industry covers automotive, rail, truck and two wheelers, and accounts for 12 per cent of TT's revenues. The increasing growth of electric and hybrid electric vehicles, albeit from a low base, is a trend set to continue. For example in China, 1.3 per cent of the automotive market share based on vehicles sold were electric or hybrid electric vehicles. Stricter city emissions regulations are seen as a key factor to innovative technologies becoming increasingly mainstream. In the UK and France, policymakers have announced a policy to remove diesel-powered vehicles from the roads by 2040. We are seeing market growth from increasing electronic content in rail, truck and passenger-car vehicles.

The global automotive electronics market is large and competitive, and projected to be worth around USD\$300 billion in 2020. It is estimated that Chinese OEMs will produce some 3.5 million electric vehicles throughout the period 2015–2019 in total. Deployment of in-vehicle electronics is increasing to make cars safer, cleaner and more comfortable through connectivity and built-in "intelligence". Highly reliable sensors are needed to enable assisted and autonomous driving functionality. Read more about where we are focused on page 17.

Our markets



Industrial

From global multinational enterprises to specialist manufacturers, industrial customers choose TT Electronics as their systems solutions 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.

What we do and where we are focused

We develop electrically engineered sensor components and high reliability devices for general industrial, oil and gas, power, energy and utility markets globally.

Automation

We provide sensors and higher level assemblies to the growing market for robotic and servo motor control applications. We collaborate with our customers to deliver advanced, future-proof solutions.

Smart energy meters

We design and manufacture signal conditioning devices for smart meter technology. Our surge-proof devices are designed-in to protect circuits for the major smart meter manufacturers in Europe and the USA.

Instrumentation

We develop high-reliability instrumentation solutions that plays key roles in critical process control applications in manufacturing environments. Our high-performance electronic components and systems support our customers in industrial markets including chemical, synthetic fibre, paper, plastic, metal and glass.

How we make a difference

We focus on our core technologies ranging from position, temperature and flow sensors to devices such as power and control microcircuits which protect and optimise the electronic circuitry in our customers' applications, improving productivity, connectivity, reliability and precision for our customers.

Why our customers choose us

Our customers rely on our diverse product portfolio to support their most challenging applications. Our high-precision and high-reliability solutions are focused on areas of the market where electronics are future-proofing next generation technology including the "smarter home", "factory 4.0" and higher specification consumer products.



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.

What we do and where we are focused

We offer high-reliability aerospace and defence technologies and have a proven track record on “sole sourced” globally renowned programmes. Our safety-critical applications are deployed on civil and military aircraft, and in space applications.

Fuel systems

We supply into fuel distribution and fuel management systems, from components to assemblies, providing high-reliability solutions that help reduce the consumption of scarce power, and increase control and signal precision in the engine control unit of an aircraft. Our solutions support our customers’ requirements for increased fuel efficiency, helping the cost effectiveness of airlines and supporting greener air travel.

Engine controls

We provide a range of component and sub assembly solutions for core engine systems and controls for some of the world’s best known civil aircraft. Key application areas include engine start and power conversion, primary and secondary power distribution, engine and auxiliary power unit controls, reverse thrust control and Full Authority Digital Engine Control (FADEC) systems.

Cockpit avionics

We supply magnetics and power and control microcircuit solutions for a wide range of applications including the flight control computer, data management systems, primary and secondary flight controls, and health monitoring systems.

How we make a difference

We design and engineer solutions which are more reliable, smaller and lighter, and are optimally packaged to put our customers ahead.

Why our customers choose us

Our experience and expertise in design and manufacturing has enabled us to build long-term partnerships with our customers, often working alongside our customers’ design teams. We are trusted to address our customers’ most complex challenges.





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.

What we do and where we are focused

We provide medical electronics and healthcare systems for diagnostics and imaging, monitoring, treatment and patient safety using our extensive experience and capability in high-precision, high-reliability design and manufacturing.

In-home care

We work with manufacturers of patient care equipment to create in-home care solutions. Our high reliability components support devices from home dialysis units to automated household vitamin dispensers.

Diagnostic equipment

We provide electronic and electromechanical assemblies and encoder technology to customers who develop innovative haematology, mass spectrometry and diagnostic medical imaging equipment. In addition, we provide precision pressure sensors that optimise the accuracy of information available to medical professionals.

Life-critical devices

We deliver high-reliability sensors and resistors for life-saving devices including dialysis machines, infusion pumps and defibrillators. We work with medical designers, providing technology for their most critical applications.

How we make a difference

Our products are used where precision, dependability and accuracy are essential. By specialising in low volume, high mix advanced electronics technology, our comprehensive range of products addresses our customers' most complex challenges.

Why our customers choose us

Our customers stay ahead of industry trends by taking advantage of our technological expertise and global facilities. Our specialised manufacturing facilities, including a state-of-the-art clean room, ensure we meet or exceed the highest requirements of medical certifications required by our customers.





Transportation

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

What we do and where we are focused

We develop electrically engineered components for passenger automotive, off-road and rail markets. 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.

Power inductors for automotive

As demand from battery power in the vehicle increases, we are well placed to serve our customers with our leading automotive power inductors. Our solutions help the voltage system during re-start events to fulfil its primary functions, namely distributing power and stabilising voltage include motor control modules.

Current sensing, circuit protection and signal conditioning for automotive

As electric and hybrid electric vehicles become more prominent on our roads, our advanced resistive technology is well placed to assist vehicle efficiency. Our resistors help dissipate excess electrical energy and heat which helps protect the battery during braking.

Rail infrastructure

We specialise in delivering the highly complex, variable demand electronics assemblies and integrations that the rail transportation industry requires from rail-based controlling and signalling systems, wayside equipment, or integrated control systems. Our flexible manufacturing environment and industry expertise make TT the right fit for continual rail infrastructure upgrades.

How we make a difference

Our focused capabilities enable us to design and engineer solutions that will play a part in the next generation of automotive vehicles across hybrid electric and electric vehicles and rail infrastructure upgrades.

Why our customers choose us

We specialise in providing automotive technologies for tier three suppliers to automotive OEMs and leading rail infrastructure corporations. Our long history of designing and engineering high-reliability solutions makes us a trusted partner for meeting the demands of the ever-evolving transportation industry.

Our business model and strategy

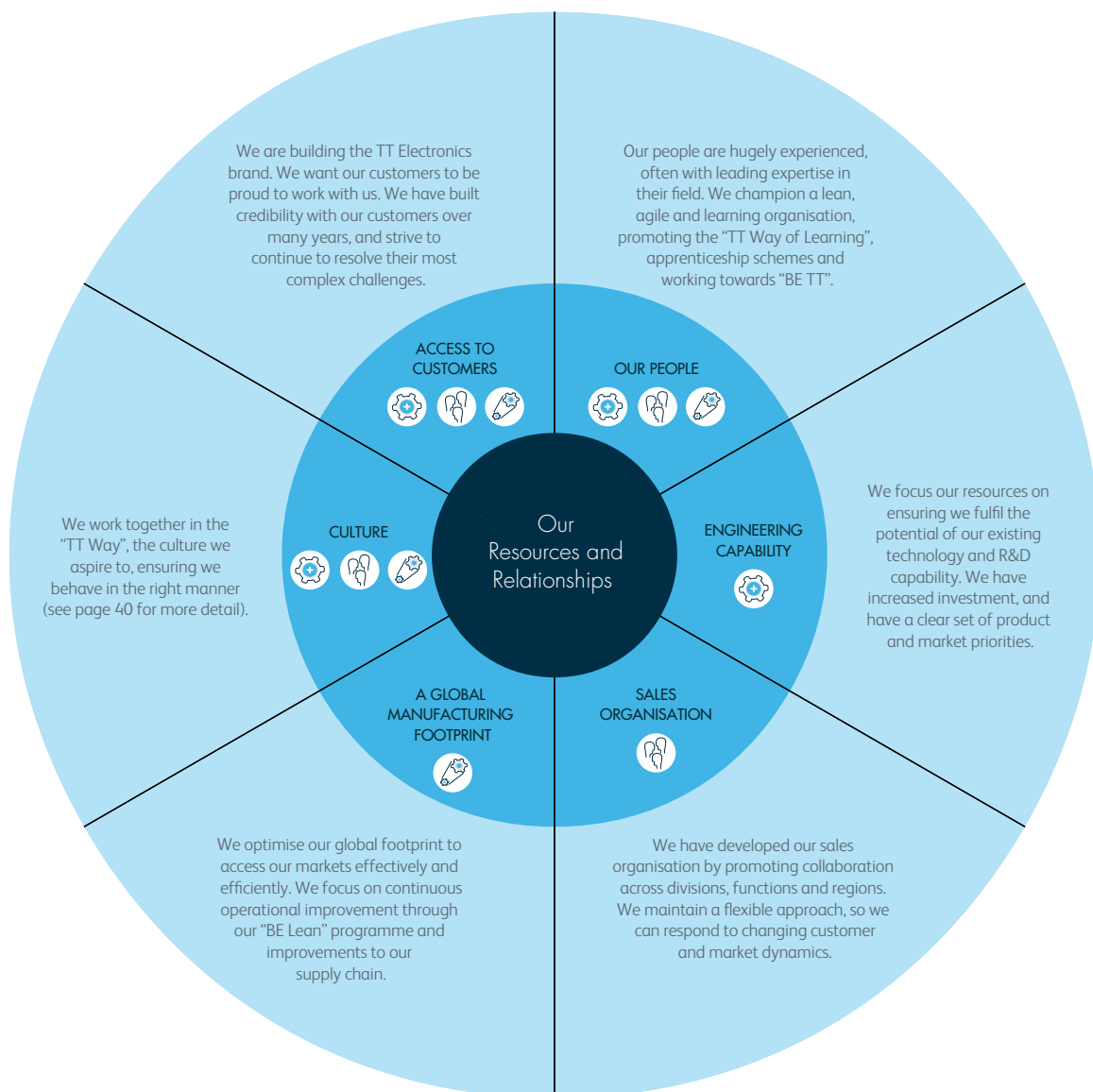
Leveraging our attributes and unlocking their potential

We leverage our attributes by:

- training and supporting our people
- fostering a culture that matches our values
- utilising our global manufacturing footprint
- following a clear strategy in sales, R&D and operations

How we generate revenue

We have built long-standing relationships with our customers. By increasingly becoming strategic partners, we are positioning ourselves to increase the revenue we generate from our relationships, and to solve our customers' most complex electronics challenges. We maintain and develop our customer relationships using our engineering expertise, differentiated product offerings, operational excellence and a global manufacturing footprint that puts us close to our customers.



Capital reinvestments

TT has a cash generative business model. We reinvest in our engineering expertise, sales channels and talent development. We will supplement our organic investment with acquisitions that align to our strategy.

Our strategic priorities



Value-added product solutions



Business development



Operational excellence

Maximising value through our strategy

Our focused strategy enhances our potential, optimising our business performance to maximise value for our varied stakeholders.

We focus on building leading positions in areas of the market where there are structural growth drivers and the proliferation of electronics is driving demand for our solutions. We concentrate our time and resources on market areas where our industry expertise and R&D investment create strong and differentiated capabilities valued by our customers.

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

Our strategic priorities:
pages 10–11

Following the disposal of the Transportation division, we have identified three strategic priorities which we are increasing investment in:



Value-added product solutions



Business development



Operational excellence

Our strategic priorities are underpinned by our continual focus on developing talent, and by our robust financial discipline and performance management.

How our strategic priorities are reflected in our KPIs: pages 24–25

Creating sustainable value for our stakeholders

Our flexible approach allows us to respond to changing customer and market dynamics. Our focused strategy ensures we have clear priorities, to maximise value for our stakeholders.

Shareholders

Our strategy is structured to drive growth and create value for our shareholders. We have a progressive dividend policy.

Please see the Chairman's statement for more information on page 4

Employees

We reward and support our people globally, both financially and through personal and professional development. We foster a culture in line with our values.

Please see the Corporate Responsibility section for more information on page 40

Customers

We work with our customers to transform their product ideas into tangible solutions, using our leading electronic engineering expertise.

Please see the Divisional reviews for more information on pages 30–35

Communities

We manage our business activities to minimise the environmental impact of our operations, and support the local communities we operate in.

Please see the Corporate Responsibility section for more information on page 40

Winning in end markets where we are well positioned

We focus our business operations in four end markets, and report through three divisions.

End markets



Industrial

Read more on page 14



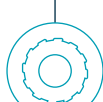
Aerospace and defence

Read more on page 15



Medical

Read more on page 16



Transportation

Read more on page 17

Our focused business portfolio



Sensors and Specialist Components

Read more on page 30



Power Electronics

Read more on page 32



Global Manufacturing Solutions

Read more on page 34

What differentiates TT?

Our people, who provide 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



1. Power inductor

A power inductor used in automotive applications

2. Current sensing, circuit protection and signal conditioning

A current sensing component used in battery management and motor control applications

3. Optoelectronics assembly

A optoelectronic sensor assembled with a PCB and connector delivering additional value to an industrial customer



We deliver high-value engineered electronic components and solutions to quickly solve our customers' most critical design challenges.

We have focused our resources and investment in areas where our product capabilities are differentiated and where there are attractive market niches that our products address.

Optoelectronic assembly solutions

We design and manufacture innovative assemblies for optical and optoelectronic devices for sensing and illumination applications in the industrial, medical, aerospace and defence, and transportation markets. Our transportation solutions are AEC-Q200 certified. Our specialism is in developing highly reliable custom assemblies to meet requirements for the most demanding of environments. Our engineering teams have over 40 years of experience in mounting, bonding and packaging to design and manufacture solutions for our customers' most complex challenges.

Circuit protection, current sensing and signal conditioning

Our dedicated engineering teams provide custom solutions to detect, protect and manipulate currents to protect our customers' applications. Our expertise spans across thick film, thin film and wirewound advanced resistive technology, ensuring we have the smartest solution at our disposal to solve our customers' most complex challenges. We specialise in high reliability, harsh environment solutions across industrial, aerospace and defence, medical and transportation markets and have over 70 years of pedigree.

Automotive power inductors

We provide electromagnetic solutions that help the voltage system in automotive vehicles during re-start events to fulfil its primary functions, namely distributing power and stabilising voltage. Our solutions have high tolerance for handling current with high power density capabilities supporting our customers with their power challenges in electrical motors covering plug-in hybrid and battery electrical vehicles.

Power Electronics



1.



3.



1. Power assembly solutions

Current transformer assembly used in the auxiliary power unit on both narrow and wide body aircraft for Airbus

2. Power and control microcircuits

GR5 microcircuit used in the engine control unit on the A350

3. Electromagnetics

Current transformer for Boeing 777 aircraft

Using our engineering expertise in a collaborative manner, we provide world-class safety critical solutions to electronic and electromagnetic challenges for harsh environment applications.

We have focused our resources and investment where our customers most value our leading expertise to create smarter solutions together.

Electromagnetics

TT offers a wide portfolio of magnetic products and technologies for applications across aerospace, automotive, industrial and medical markets. Our electromagnetic components control the primary flight surfaces, including the ailerons, rudder and elevator. We are able to use our high specification clean room to manufacture electromagnetic components for the harshest of environments. We extended our electromagnetic capabilities with the acquisitions of Aero Stanrew in 2015 and Cletronics in 2017.

Power assembly solutions

By partnering with our customers to create smarter solutions together, we use our specialist expertise to develop power assemblies for the “more electric” aircraft. Our expertise allows us to configure panel wiring assembly, power installation circuitry and any custom cabling or heat management requirements. Our collaborative and knowledgeable engineering teams are able to work closely with our customers to deliver the exact assembly requirements they need to meet their specifications with a finished product of the highest quality.

Power and control microcircuits

We provide power and control microcircuits for long-standing customers and specialise in solutions for harsh and regulated environments. Our world-class manufacturing facilities provide the foundation for the development of hybrid microcircuits integrated into the engine controls, fuel management systems and inertial navigation circuitry on some of most well-known global commercial aircraft.

Global Manufacturing Solutions



We combine the skills and technologies of our strategically located manufacturing sites to provide the convenience and flexibility for our customers' local and global manufacturing requirements.

We specialise in low volume, high mix manufacturing requirements which match the industry dynamics across our target niches in industrial, aerospace and defence, medical and transportation; areas where we have built industry leading expertise over many years.

Design for manufacture

We provide prototyping, front-end engineering and design solutions to deliver seamless global electronics services, combining technically advanced design and manufacturing capabilities with logistics, interconnect and integration solutions. Often supporting products that operate in harsh and highly regulated environments, we guide customers through new product introduction including design, engineering, sourcing, manufacturing and testing phases.

Manufacturing assembly and systems integration

Drawing on our design engineering capabilities, global facilities and world-class quality standards, we deliver true end-to-end solutions. We provide full systems integration solutions to meet the needs of OEMs in the industrial, aerospace and defense, medical, and transportation industries worldwide. In addition to extensive printed circuit board assembly and specialty cable harness capabilities, we provide highly engineered solutions through full systems assembly and box build services.

Reliability and functional testing

Our test development capabilities range from industry standards to comprehensive, custom highly engineered systems. We provide extensive production level test services, as well as environmental and investigative testing to provide a complete end-to-end solution for electronics manufacturers. Our skilled experts help design and perform tests on products where quality, reliability, security, and confidence are of the highest importance.



An employee in our Global Manufacturing Solutions facility in Suzhou, China.

Financial

Organic revenue growth (%)

5%

2016: (3)%

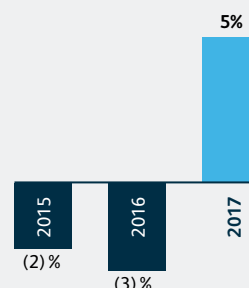
[Link to strategic priorities:](#)



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: A strong sales performance across all divisions has resulted in strong organic revenue growth.



Underlying earnings per share (EPS) (p)

10.9p

2016: 7.8p
(30%) (constant currency)

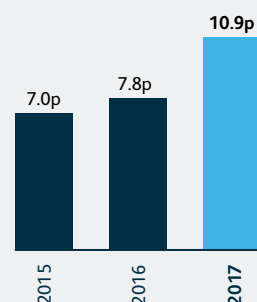
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Description: Underlying EPS is calculated as underlying profit for the year, divided by the weighted average number of shares in issue during the year.

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 page 71.

Performance: Underlying EPS has increased by 30 per cent, thanks to an improvement in underlying operating profit and reduced interest expense.



Cash conversion (%)

98%

2016: 79%

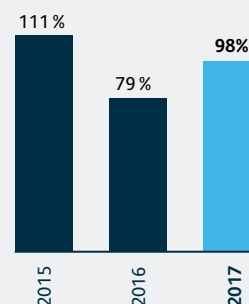
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Description: Cash conversion is defined as underlying operating cash flows, expressed as a percentage of underlying operating profit.

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 excellent year of cash conversion.



Return on invested capital (%)

10.6%

2016: 9.2%

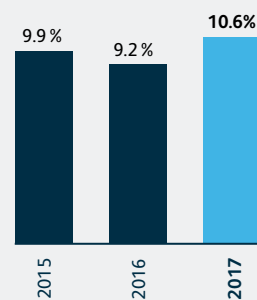
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Description: Return on invested capital is defined as underlying operating profit for the year divided by monthly average invested capital for the year. Average invested capital excludes provisions, tax balances and financial assets and liabilities, 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: Return on invested capital has improved by 140 basis points with increased operating profit on a broadly unchanged capital base.



Non-financial

Safety performance (No. of incidents)

7

2016: 8 (14%)

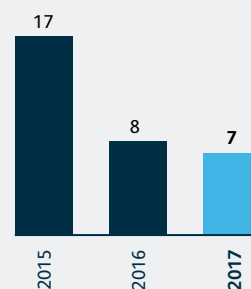
[Link to strategic priorities:](#)



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 improved our safety performance again this year, reducing the number of accidents at our sites. This strong performance reflects our continued focus on building a safety culture at each of our sites. Since 2015, we have more than halved the number of lost time accidents. We continue to strive towards zero harm.



Engagement score

4.73

2016: 4.53

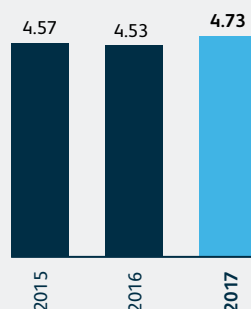
[Link to strategic priorities:](#)



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: We champion a lean, agile learning organisation, including the "TT Way of Learning" apprentice schemes and working towards "BE TT".

Performance: Engagement across the Group has improved as we continue to focus on "BE TT", the culture we aspire to, and our "TT Way" behaviours (see more on page 41). Engagement has been improving as we continue to listen to our employees' views on how to continue to make TT a great place to work.



R&D spend (% of sales¹)

4.6%

2016: 4.7%

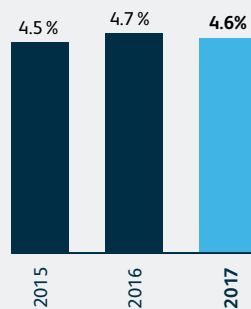
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Description: R&D spend is defined as the cash spent on R&D in the Sensors and Specialist Components and the Power Electronics divisions. The Global Manufacturing Solutions division does not consume R&D. We have changed this from the percentage of R&D spend across the Group to better reflect the way in which spend is managed in the business.

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 on focused R&D, as our revenue has grown. We increased the cash spend by 4 per cent at constant currency. We continue to incrementally increase R&D spend to focus on new product development.



All KPIs have been restated for continuing operations.

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

Our strategic priorities



Value-added product solutions



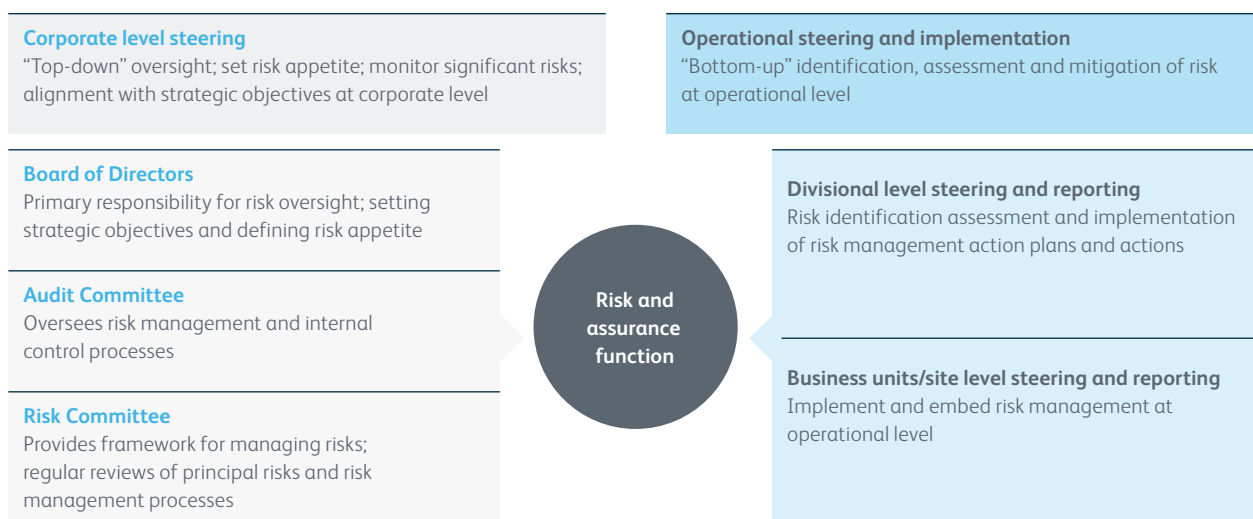
Business development



Operational excellence

Risk management for the successful delivery of our strategy

Our risk management framework



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 team. 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. However, the sale of the Transportation division has had a favourable impact on the principal risks of the Group. One impact of this is the removal of the principal risk in respect of pricing and margin pressures, where the net impact has now reduced such that it no longer appears on the Group Risk Register. In addition, following agreement with the Board and Risk Committee, a risk in relation to IT systems and information has now been promoted to the Group Risk Register in light of the continued escalation of cyber attacks on industry in general.

While there is an acknowledgement of continued uncertainty around geopolitical risk during 2018, the Group continues to take appropriate mitigating activities to address this and hence this risk is considered to be unchanged. In addition, Executive management and the Board do not currently anticipate any significant impact on the Group's trading following the UK referendum on Brexit.

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the period to December 2020, taking into account the Group's current position and the potential impact of the principal risks and uncertainties set out on pages 28 and 29 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 2020.

The Directors have determined that the period to December 2020 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.

Principal risks and uncertainties

Risk description	Potential impact	Mitigating action	Change in the year
General			
<p>General economic downturn Reduction in demand and orders</p>	<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 	<p>↔ Unchanged</p>
Commercial			
<p>Contractual risks Potential liabilities from defects in performance-critical products that often operate in extreme environments</p>	<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>↓ Reduction in risk following sale of Transportation division</p>
<p>Research and development Delay in new product development which is intended to support revenue growth</p>	<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			
<p>People and capability Ability to attract and retain high-quality and capable people</p>	<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>
<p>Supplier resilience Potential failure of critical suppliers; product delivery delays; inability to meet customer commitments</p>	<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 	<p>↓ Reduction in risk as a result of work on supply chain</p>

Risk description	Potential impact	Mitigating action	Change in the year
Operational continued			
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 being refreshed for wider circulation across the business in 2018 	 Increased risk due to continued escalation of cyber-attacks on industry in general
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 	 Increased risk following sale of Transportation division and recommended offer for Stadium Group plc
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

Sensors and Specialist Components



Tim Roberts,
EVP Sensors and
Specialist Components

Largest markets
Industrial
Transportation

Revenue
£142.3m

2016: £129.5m

Underlying
operating profit¹
£18.8m

2016: £15.6m

Underlying
operating profit margin¹
13.2%

2016: 12.0%

Sensors and Specialist Components revenues were £142.3 million (2016: £129.5 million) an increase of 10 per cent and 6 per cent on an organic basis (excluding a £5.0 million positive foreign exchange impact). The increase in revenues was a result of market share gains and positive market demand dynamics.

Underlying operating profit improved to £18.8 million (2016: £15.6 million), an increase of 21 per cent or 15 per cent excluding a £0.7 million foreign exchange benefit. The profitability of the division improved as a result of operational leverage on the organic revenue growth. Margin mix improved in the second half as expected. Underlying operating profit margin was 13.2 per cent, up 110 basis points at constant currency.

We have identified three areas as our focus areas for growth and where we are concentrating our R&D spend: current sensing, circuit protection, and signal conditioning; optoelectronic assembly solutions; and automotive power inductors. These are product areas where we have particular differentiation and comparative advantage, and attractive market niches that our products address.

We delivered strong growth in current sensing, circuit protection and signal conditioning. This is as a result of strong demand coupled with market share gains, backed by our favourable lead times and increased capacity. We have increased sales to customers in industrial and consumer goods, with an existing aerospace and defence customer also ramping up an existing programme.

Our optoelectronics assemblies have seen good growth, primarily driven by industrial and automotive customers in the US where market conditions have been favourable. Our magnetics business has focused on power inductors for automotive where one of our customers has won a new programme with a German OEM.

During the year, we invested 7 per cent more in R&D in the Sensors and Specialist Components division, launching ten new products. This includes four new products launched in the current sensing, circuit protection and signal conditioning business, responding to customer demand for smaller and lighter components, and extended capabilities to protect circuits from greater power surges.

(1) Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).
N.B. Prior year segmental reporting has been restated for a change in internal reporting.

Capturing market share

We have seen good growth in our current sensing, circuit protection and signal conditioning product lines, where our leading expertise and differentiated product offering has been solving our customers' most complex challenges for over 30 years.

Our solutions help our customers' applications measure current and signals and protect devices from unwanted high energy surges. This includes protecting a circuit in smart meters from lightning strikes.

Customers choose our solutions because of our diverse range of technologies, from thin film, thick film, wire round to metal strip solutions, we develop the right solution, with the right technology to meet our customers' applications requirements.

39%
of 2017
Group revenue

6%
Revenue growth at
constant currency

Power Electronics



Tom Garvey
EVP Power Electronics

Power Electronics revenues increased by 14 per cent to £64.2 million (2016: £56.2 million), up 12 per cent on an organic basis including the one-off last time buy activity now complete, associated with moving production from Fullerton in the US to our Bedlington facility in the UK. The growth was a result of continued platform growth in aerospace and defence and the ramp up of product lines that were outsourced to us from a global engine manufacturer.

Underlying operating profit improved to £6.2 million (2016: £5.0 million), up 24 per cent due to operational leverage. Underlying operating margins increased by 80 basis points to 9.7 per cent (2016: 8.9 per cent).

Largest market
Aerospace and defence

In the first half, we acquired Cletronics, a small US based manufacturer of electromagnetic components for the aerospace industry, for £1.2 million. The acquisition will help to accelerate the strategy for our power electronics capabilities in North America and adds product and technical breadth to the capabilities acquired in Aero Stanrew in 2015. Cletronics, contributed £1.4 million of revenue and £0.2 million of underlying operating profit in just over nine months of ownership.

We have identified three areas as our focus areas for growth and where we are concentrating our R&D spend: electromagnetics; power assembly solutions; and power and control microcircuits. These are areas where we have strategic customer relationships that are driving increased demand for our product and engineering capabilities.

Revenue

£64.2m

2016: £56.2m

Underlying operating profit⁽¹⁾

£6.2m

2016: £5.0m

Underlying operating profit margin⁽¹⁾

9.7%

2016: 8.9%

During the year, we have extended our strategic relationships with key customers. We have seen good growth from our partnership with Rolls-Royce to provide power and control microcircuits used in the engine control unit (FADEC) for the next generation of aerospace engines. We have also seen good growth from the ramp-up of product lines that were outsourced to us from a global engine manufacturer. In addition, we have also seen an increase in volumes associated with winning additional content on the Gulfstream business jets and the ramp up of the Airbus A350XWB.

During the year, we launched six new products in partnership with our customers, underpinning our future growth. New products launched include a magnetics component for aircraft power distribution for aerospace and defence applications; and power and control microcircuits including for our Application-Specific Integrated Circuit (ASIC) product ranges.

(1) Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).
N.B. Prior year segmental reporting has been restated for a change in internal reporting.

Growth with existing customers

We have a long-standing customer relationship with Rolls-Royce to develop smarter power and control microcircuits solutions together.

We are often sole-sourced on customer programmes and have seen good growth in power and control microcircuits used in the control of the fuel supply for aerospace engines due to the ramp-up of related aerospace production. This year, we were selected as one of only three suppliers to Control Systems to join Rolls-Royce's Supplier Engagement Programme, demonstrating the strength and value of our relationship.



Global Manufacturing Solutions



Michael Leahan
EVP Global
Manufacturing Solutions

Largest markets
Industrial
Medical

Revenue
£153.5m

2016: £147.0m

Underlying
operating profit¹
£6.5m

2016: £6.3m

Underlying
operating profit margin¹
4.2%

2016: 4.3%

Global Manufacturing Solutions revenues increased by 4 per cent to £153.5 million (2016: £147.0 million), with organic revenue growth of 2 per cent. Revenue growth was stronger in the second half. There was a favourable foreign exchange impact of £4.2 million. Revenue growth was strong in Asia, driven by customers in the medical and transportation markets.

Underlying operating profit increased from £6.3 million in 2016 to £6.5 million in 2017. There was a positive foreign exchange impact of £0.4 million. Underlying operating profit improved in the second half as a result of operational leverage on increased revenues. Underlying operating margins were 4.2 per cent (2016: 4.3 per cent).

Global Manufacturing Solutions specialises in low volume and high mix electronics manufacturing services. Our expertise is in providing printed circuit board assembly (PCBA) and box build, design for manufacture and testing and full systems integration for the aerospace and defence, industrial, medical and rail transportation industries.

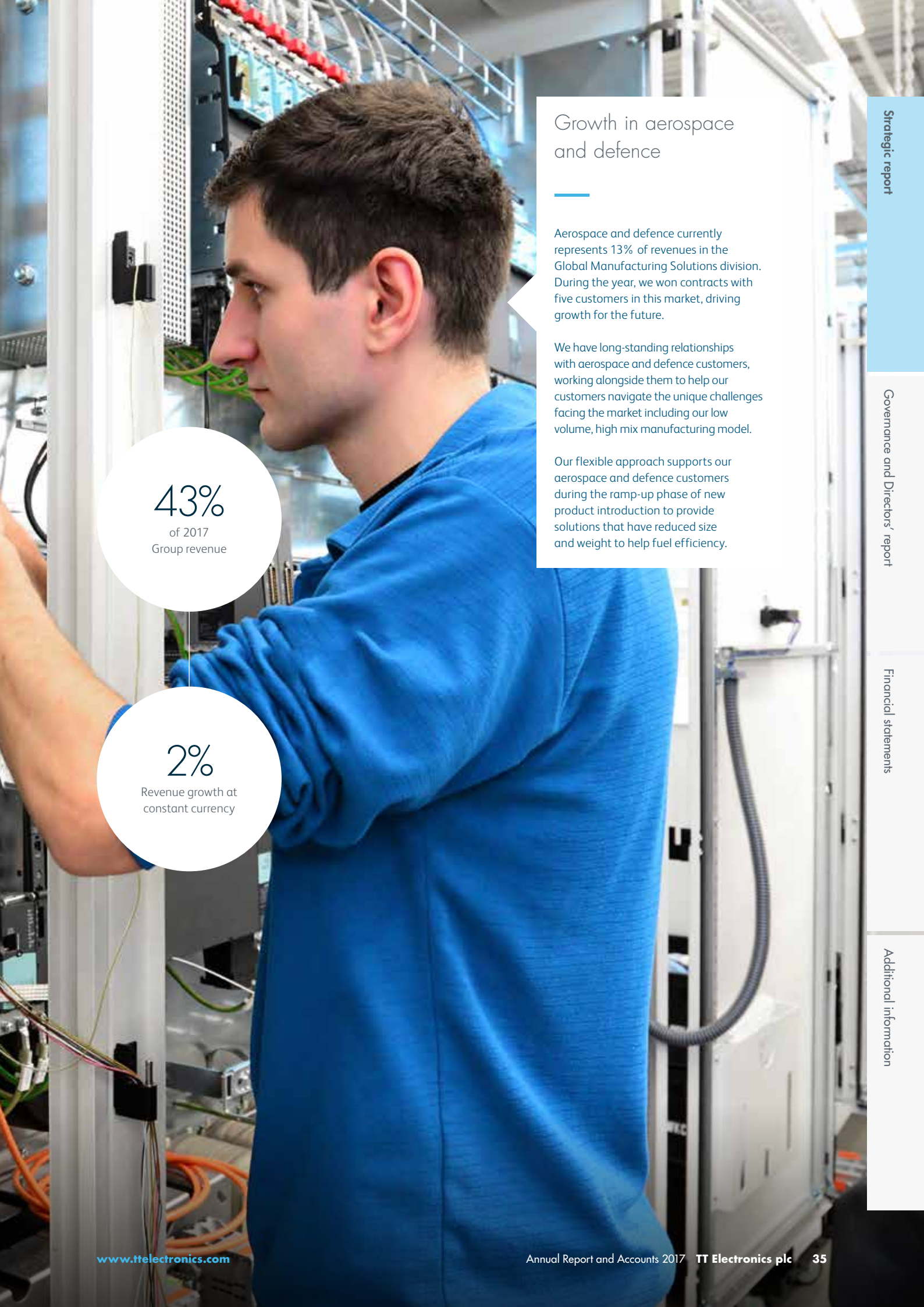
In the US, the aerospace and defence market strengthened and we were selected as a strategic partner and won multi-year contracts with an OEM customer. This customer win was complemented by four further aerospace and defence contracts won with new and existing customers.

Medical markets also strengthened with macro drivers in Asia maintaining strong investment. We won a number of new customers for PCBA, systems integration and cable assemblies in medical markets in both the US and Asia. We also won a new contract for a rail infrastructure project in Asia.

In the second half of the year, we announced that the Romania site would close in the first half of 2018 as part of the separation from the Transportation division. Customer qualification to move production to Rogerstone, UK, and Suzhou, China, is progressing as expected. Although the European operations have faced challenging conditions, we have made good progress with a transportation customer, with whom we have doubled our revenues over three years.

(1) Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).
N.B. Prior year segmental reporting has been restated for a change in internal reporting.





Growth in aerospace and defence

Aerospace and defence currently represents 13% of revenues in the Global Manufacturing Solutions division. During the year, we won contracts with five customers in this market, driving growth for the future.

We have long-standing relationships with aerospace and defence customers, working alongside them to help our customers navigate the unique challenges facing the market including our low volume, high mix manufacturing model.

Our flexible approach supports our aerospace and defence customers during the ramp-up phase of new product introduction to provide solutions that have reduced size and weight to help fuel efficiency.

43%
of 2017
Group revenue

2%
Revenue growth at
constant currency

A year of strong revenue and profit growth

Mark Hoad
Chief Financial Officer



Financial headlines

- 5% organic revenue growth from good sales performance and increased market demand
- Underlying operating profit up 12%, PBT up 28% at constant currency
- Underlying operating margins increased to 6.8%, up by 60 basis points
- Excellent underlying cash conversion at 98%
- 140 basis points increase in return on invested capital to 10.6%

Introduction

Group revenue for 2017 was £360.0 million (2016: £332.7 million) an increase of 8 per cent and 5 per cent excluding the £9.3 million benefit from foreign exchange. Our strong sales performance and improved market demand have contributed to good growth this year. The focus on operational excellence has enabled us to increase capacity and maintain lead times resulting in market share gains in our current sensing, circuit protection and signal conditioning product lines. The Group's order book has improved compared to the same time last year in part because of customers placing orders further ahead than at this time last year.

Underlying operating profit increased by 18 per cent to £24.3 million (2016: £20.6 million), and by 12 per cent excluding a foreign exchange benefit of £1.1 million. The improvement was driven by the Sensors and Specialist Components and Power Electronics divisions. Foreign exchange headwinds in the second half were offset by early delivery of efficiency savings post the disposal of the Transportation division. Underlying operating profit margin for the Group has improved by 60 basis points to 6.8 per cent (2016: 6.2 per cent) and return on invested capital increased by 140 basis points to 10.6 per cent (2016: 9.2 per cent). We delivered another year of excellent cash conversion of 98 per cent (2016: 79 per cent) and a free cash inflow of £4.7 million (2016: £13.8 million).

“We delivered a strong financial performance in 2017 with organic growth from all three divisions, significant profit improvement and excellent cash conversion.”

Results for the year ended 31 December 2017

£ million unless otherwise stated	Underlying ¹			Change constant fx	Statutory	
	2017	2016	Change		2017	2016
Continuing operations						
Revenue	360.0	332.7	8%	5%	360.0	332.7
Operating profit	24.3	20.6	18%	12%	20.0	18.8
Profit before tax	22.0	16.1	37%	28%	17.7	14.3
Earnings per share (pence)	10.9p	7.8p	40%	30%	9.7p	7.3p
Return on invested capital ²	10.6%	9.2%	140bps			
Cash conversion ³	98%	79%				
Total operations						
Earnings per share (pence)					29.5p	10.3p
Free cash flow ⁴					4.7	13.8
Net cash (debt)					47.0	(55.4)
Dividend per share (pence)					5.8p	5.6p

(1) Excluding the effect of restructuring costs, asset impairments and acquisition and disposal related costs

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

(3) Underlying operating cash flow (underlying EBITDA less net capital expenditure excluding property disposals, capitalised development expenditure, working capital and non-cash movements) divided by underlying operating profit

(4) Net cash flow from operating activities less net cash flow from investing activities less interest

Closing net funds at the end of the year were £47.0 million (2016: net debt £55.4 million).

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

Non-underlying items

Statutory operating profit was £20.0 million (2016: £18.8 million), up by 6 per cent driven by the business performance in Sensors and Specialist Components and Power Electronics.

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. The total charge for items excluded from underlying profit is £4.3 million (2016: £1.8 million). Restructuring and other costs totalling £1.6 million related to footprint change projects including the closure of the Global Manufacturing Solutions facility in Romania which is scheduled to be completed in the first half of 2018. This was partially offset by gains related to a pensions increase exchange ("PIE") exercise. Acquisition and disposal costs of £2.7 million (2016: £3.8 million) related mainly to the non-cash amortisation of acquisition intangibles.

Financial review continued

Other financial matters

Exchange rates

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

	Average	2017 Closing	Average	2016 Closing	Average	2015 Closing
US\$	1.29	1.35	1.36	1.24	1.53	1.47
Chinese						
RMB	8.73	8.81	9.02	8.59	9.60	9.57

Interest

There was a £2.2 million reduction in the net interest expense to £2.3 million (2016: £4.5 million) as a result of receiving payment for the disposal of the Transportation division in October 2017 which paid down the net debt.

Tax and earnings per share

The underlying effective tax rate was 20.0 per cent (2016: 21.1 per cent) and basic underlying earnings per share increased by 40 per cent to 10.9 pence (2016: 7.8 pence), and by 30 per cent at constant currency. In December 2017, new legislation was enacted fundamentally changing the basis of US tax. This resulted in a one off benefit arising on enacted changes in tax rate of £1.8 million.

Discontinued operations

Profit from discontinued operations totalled £32.0 million (2016: £4.8 million) including a £26.3 million profit before tax on disposal of the Transportation division. Operating profit from discontinued operations increased to £12.4 million (2016: £8.8 million) as a result of operational leverage on increased revenue together with the impact of ceasing to charge depreciation from 30 June 2017 when the business was classified as an asset held for sale.

Cash performance

The cash performance was once again excellent with underlying operating profit turned into good operating cash flow with cash conversion of 98 per cent. We sought to balance capital discipline with supporting growth and net capital expenditure and development expenditure totalled £14.7 million (2016: £13.0 million), equivalent to 1.1 times depreciation and amortisation (2016: 1.1 times). There was a working capital outflow of £1.9 million (2016: outflow £5.4 million) and net interest and taxation reduced to £7.4 million (2016: £10.5 million). Discontinued operations generated an operating cash outflow of £3.4 million (2016: inflow £11.0 million). Total Group free cash flow was £4.7 million (2016: £13.8 million). There was a £6.2 million outflow in relation to purchases of shares into our employee benefit trust (2016: £nil) to satisfy future vesting of long term incentive plans.

Dividends

Given TT's strong performance, the Board's confidence in the future prospects for the business, and reflecting the financial impact on the Group of the disposal of the Transportation division, the Board is proposing a final dividend of 4.05 pence per share. This will take the full year dividend to 5.8 pence per share (2016: 5.6 pence per share), an increase of 4 per cent.

Pensions

The Group operates one significant defined benefit scheme in the UK and overseas defined benefit schemes in the US. These schemes are closed to new members and are closed to future accrual.

Given the material nature of the UK scheme, the Group has developed a comprehensive strategy to manage the financial risk associated with it. 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 Company will continue with the previously agreed schedule of deficit contributions.

The Company made deficit contributions of £4.7 million in 2017. For the next three years, contributions of £4.9 million, £5.1 million and £3.9 million are planned.

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 scheme. During the year, the Company ran a pensions increase exchange exercise, which offered pensioners the ability to exchange inflationary pension increases in the future for a higher fixed level of pensions. As a result of this exercise, the funding deficit in the UK scheme was reduced by £2.3 million.

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

£million	2017	2016
Fair value of assets	551.9	537.6
Liabilities	(536.8)	(539.8)
Surplus/(deficit) – UK scheme	15.1	(2.2)
Overseas schemes	(3.2)	(3.5)
Total Group surplus/(deficit)	11.9	(5.7)

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 21 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 funds at the end of the year were £47.0 million (2016: net debt £55.4 million), with available undrawn committed and uncommitted facilities of £204.2 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 by 4.0 times.

	Covenant	December 2017
Net debt/underlying EBITDA	<3.00	–
Underlying EBITDA/net finance charges	>4.00	16.9 times

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



Mark Hoad
Chief Financial Officer
7 March 2018

A responsible business



Talent

Inspiring the next generation of engineers
Skills day in Suzhou, China

[See page 45 for more information](#)

Fundraising

Supporting our local communities

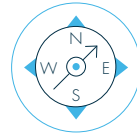
Our US sites supported the relief efforts for the Irma, Maria and Harvey hurricanes.

[See page 41 for more information](#)



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 principles of the "TT Way" are:



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 17 manufacturing sites and four sales and engineering offices. 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 2017, we engaged in a number of activities around the world to give something back to the communities we work in. TT and our employees raised over £50,000 to support charities globally in addition to giving hundreds of hours of support to those most in need in our communities.

Our US sites have been supporting the hurricane relief effort after the devastation caused by Irma, Maria and Harvey across the Caribbean. This included sending relief supplies to Dominica, including personal care items, non-perishable food, water, clothing and baby food.

In Kuantan, Malaysia, our employees supported a local school by repairing and refurbishing their computer laboratory which had been damaged in a flood. At the same time, the team ran a "TT lab" at the school to raise pupils' interests in a career in electronics. In all, almost 400 children took part from nine local schools, with the initiative featured on national television.

Richard Tyson, CEO, along with the head office team from Woking raised more than £11,600 taking on the Yorkshire Three Peaks Challenge in the UK for the Salters' Institute, a 100-year old institution whose aim is to excite and encourage young people to take up a long-term interest in science, technology, engineering and maths (STEM); together with the Woking and Sam Beare Hospices. The gruelling walk stretched over 24.5 miles and a combined 5,200ft (1,585m) of ascent which the team completed in less than 12 hours. The money raised will support the local communities in which we operate and encourage young people to pursue STEM subjects and enter our industry.



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. During the year, we established an Enterprise Adviser role with a school local to our Bedlington site in the UK to inspire future engineers in the community. Our employees have attended careers fairs and festivals, sponsored student projects, worked collaboratively with schools hosting student site visits and we have allowed employees to volunteer time supporting school projects.

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 Corporate and Social Responsibility Committee, which is supported by a dedicated Environmental, Health and Safety Committee, under the leadership of our EVP Operations and Supply Chain. For any matters of particular concern, an Ethics Committee is convened on an 'as needed' basis, constituted from members of the Executive Management Board.



Human rights

TT 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 (formally 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.

Upholding high standards – Responsible Business Alliance (RBA)

We maintain an active involvement with the RBA

The RBA's Code of Conduct provides guidelines for performance and compliance in five critical areas: Environment, Ethics, Health & Safety, Labour and Management Systems. In particular, the Code of Conduct establishes standards to ensure that working conditions are safe, that workers are treated with respect and dignity and that business operations are environmentally responsible and conducted ethically. All of our manufacturing facilities complete an RBA survey on a periodic basis, which measures performance and social practices, as well as the performance of social and environmental management systems. The most recent evaluation exercise demonstrated high levels of adherence to the Code of Conduct for sites across the Group, leading to them all being assessed as either "low" or "medium" risk.

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. During the year, we started a number of initiatives to reduce our environmental footprint, including the introduction of LED lighting at many of our sites where we saw an opportunity to improve the lighting quality in production areas alongside our energy efficiency. This has resulted in a notable reduction in our carbon dioxide footprint from electricity. For the year ended 31 December 2017, 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 2017. The comparative figures for 2016 have been re-stated for the continuing operations following the divestment of the Transportation division.

Carbon dioxide equivalent (tonnes)

	2017	2016 ²
Emissions resulting from operations and combustion of fuel ¹	1,481	1,831
Emissions resulting from refrigerants	1,814	Not collected
Emissions resulting from the purchase of electricity, heat, steam or cooling	25,308	32,235
Total	28,603	34,066

- (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.
- (2) 2016 figures were calculated using the factors for converting energy usage to carbon dioxide equivalent emissions published by DEFRA in 2015.

The Group has chosen to adopt emissions per £1 million of revenue as its intensity ratio. For 2017, emissions were 79.4 tonnes of carbon dioxide equivalent per £1 million of revenue (2016: 102.4 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 2017, 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 2017.

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. During 2017, new controls have been implemented to ensure that these factors are considered as part of the engagement and ongoing use of TT's supplier base. 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

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. In 2017, our employee survey received an overall response rate of 87 per cent, up from 77 per cent in 2016; our engagement score improved by 4 per cent.

We communicate frequently and openly with our employees, and we 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.

We have a "BE Inspired" programme to recognise teams and individuals that excel in demonstrating the "TT Way" behaviour. In 2017, we received over 1,700 nominations for these awards, 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 4,216 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)	25	5
Barbados	23	76
China	289	399
Malaysia	67	348
Mexico	519	567
Romania	26	37
Singapore	16	7
Tunisia	10	28
United Kingdom	790	472
USA	236	249
Other	11	2
Total	2,024	2,192

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 people. 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 organisations. Our MLPs are now training a new cohort of MLPs, sharing skills and best practice among our organisation.

We also run a number of informal local initiatives relevant to local site requirements to update and refresh skills. For example, in Suzhou, 40 employees from across departments took part in both group and individual competitions which tested 13 basic skills in areas covering manufacturing, warehouse, quality control and the office.

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 2017 Strategic report, from page 2 to page 45, has been reviewed and was approved by the Board of Directors on 7 March 2017.



Richard Tyson
Chief Executive Officer



Mark Hoad
Chief Financial Officer

A Board that is committed to maintaining the highest standards of corporate governance

Neil Carson
Chairman

In the past year, we have continued to build on our governance processes, with a view to promoting the long-term success of the Group, supporting the delivery of our strategic goals and unlocking the potential of the business. I am pleased to report that we have made significant progress on a number of fronts.

The sale of the Transportation division to AVX represented the key strategic priority for TT in 2017. Before the announcement of the transaction in July, much of the Board's attention was focused on reviewing the valuations of the competing bids, then approving the terms of the sale to AVX and the content of the Class 1 Circular to shareholders. I am delighted we were able to conclude this strategically important transaction in an efficient and timely manner, and welcomed the overwhelming support of our shareholders in approving the sale (with over 99.9% of the total proxy votes cast having been recorded in favour of the transaction).

I am pleased to report that, despite the extensive efforts involved in concluding the sale of the Transportation division, the Board has maintained a strong focus on its wider governance responsibilities, including the delivery of the Group's operational plans, and monitoring performance in key areas of operations, such as health & safety, the BE Lean operational efficiency programme, talent management, R&D initiatives and M&A planning. Furthermore, the Board remains focused on ensuring the Group's risk management procedures meet the long-term needs of the business and its wider strategic goals. This demonstrates the commitment of the Board to maintaining the highest standards of corporate governance, which we view as being a key factor in the future success of the Group. In addition, the Board confirms that in relation to its governance processes, the Group has complied fully with the requirements of the UK Corporate Governance Code ("the Code") throughout 2017.

In 2016, we refreshed our Board structure to ensure we had an appropriate balance of skills and experience to meet the future needs of the business. I am pleased to report that our new Non-executives, Jack Boyer and Alison Wood, have made an immediate contribution to the Board, which was particularly important in a year of significant strategic change. Based on this experience, and the expected outcomes from the initiatives described below, the Board considers that it now has the right composition to move TT Electronics through the next phase of its development. As a result, we felt further changes to the Board were unnecessary in 2017, and are not contemplating any in the immediate future.

The Board has worked hard in the past year to create an environment designed to maximise the contribution of each individual Director. A key part of this process was to provide our new Non-executives with a thorough induction programme covering TT's main operations. Just as important was the move we undertook in 2017 to enhance the data available to the Board on topics of strategic importance. As a result, we have now re-focused our reporting processes to ensure that the Board has a more detailed understanding of TT's business dynamics in key areas of operations such as technology roadmaps and portfolio performance. We think this will be of enormous benefit to the Board as TT pursues targeted M&A opportunities.

Given TT's position as a FTSE SmallCap company, there is no formal requirement to conduct periodic external Board evaluation, as would be the case for a listed company with a larger market capitalisation. Nevertheless, as part of our two-day Strategic Planning review in July, we arranged for a highly respected external facilitator (who works on Board development activities for a number of FTSE 100 and FTSE 250 clients) to review the operational dynamics of the Board and comment on areas of potential improvement and opportunities for further collaboration. This was a highly productive exercise, which built upon one-on-one interviews conducted prior to the meeting. A key part of this process involved the Board undertaking a detailed assessment of the kind of business TT might aspire to be in the future, as well as the Board's risk appetite in leading the substantial anticipated growth in TT's business.

During 2017, we continued to structure our meetings so as to maximise the opportunity for Non-executives to interact with a range of employees across the business, which included attending the TT Leadership Conference in May, as well as an Executive Management Board dinner and one-off site visits. As Chairman, I remain committed to ensuring that Non-executive Directors are afforded every opportunity to develop their understanding of TT's markets, products and customers as we prepare for the next phase in the Group's development.

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 in last year's report, we do not advocate a forced approach to diversity at any level of the organisation. Nevertheless, we believe the steps we took in 2016 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.

In conclusion, I am encouraged by the continuing progress we have made in the past year in aligning the Board's governance processes to the delivery of the Group's strategic objectives, by focusing on those strategic priorities where the Board considers it can add most value. I look forward to continuing this progression in the coming year, as TT moves into the next stage in its development.

Neil Carson
Chairman

"I am pleased to report that we have made significant progress on a number of fronts."



A blend of skills and experience



Neil Carson OBE
Chairman

Age: 60
Joined: 2015
Committees: Nominations (Chairman), Remuneration
Relevant skills and experience: Currently Honorary President of SCI (the Society of Chemical Industry) and a non-executive director of TI Fluid Systems plc (where he is also deputy chairman, senior independent director and chairman of the remuneration committee). Formerly chief executive of Johnson Matthey plc, a non-executive director of Amec Foster Wheeler plc and Paypoint plc, and a founder member of the Prince of Wales' Corporate Leaders Group on Climate Change. After completing an engineering degree, Neil joined Johnson Matthey in 1980 where he has held a number of senior management positions in both the UK and USA. Awarded an OBE for services to the chemical industry in 2016.



Richard Tyson
Chief Executive Officer

Age: 47
Joined: 2014
Committees: Corporate Responsibility (Chairman), Risk (Chairman)
Relevant skills and experience: Formerly President of the Aerospace & Security Division of Cobham plc from 2008 to 2014 and a member of their Executive Committee. Previously responsible for TRW Aeronautical Systems (formerly part of Lucas Industries) European aftermarket business before joining Cobham plc in 2003 to run its flight refuelling division. Richard is a fellow of the Royal Aeronautical Society.



Mark Hoad
Chief Financial Officer

Age: 47
Joined: 2015
Committees: Risk
Relevant skills and experience: A Chartered Accountant, Mark was group finance director of BBA Aviation plc, a FTSE 250 company, from 2010 to 2014. Prior to joining BBA as group financial controller in May 2005, he spent nine years in a variety of management roles at RMC Group plc with periods in Germany, Croatia and Australia.



Stephen King
Senior Independent
Non-executive Director

Age: 57
Joined: 2011
Committees: Audit (Chairman), Nominations
Relevant skills and experience: Currently group finance director of Caledonia Investments plc and chairman of the audit committee of the board of Bristow Group Inc. Formerly non-executive director and chairman of the audit committee of The Weir Group plc, he was group finance director of De La Rue plc from 2003 to 2009 and, before that, finance director of Aquila Networks plc (formerly Midlands Electricity plc). A Chartered Accountant, Stephen has also held senior financial positions in Lucas Industries plc and Seaboard plc, and was also a non-executive director of Camelot plc from 2008 to 2009.



Michael Baunton CBE
Independent
Non-executive Director

Age: 67

Joined: 2010

Committees: Audit,

Nominations, Remuneration

Relevant skills and experience:

Currently 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. 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 companies including Caterpillar Inc, Perkins Engines Company Limited and Tenneco Inc.



Jack Boyer OBE
Independent
Non-executive Director

Age: 58

Joined: 2016

Committees: Audit,

Nominations, Remuneration

Relevant skills and experience:

Currently a non-executive director of Mitie Group plc and chairman of its remuneration committee. Also chairman of the Academies Enterprise Trust, a Member of Council of the Engineering and Physical Sciences Research Council and a non-executive director of the Sir Henry Royce Institute for Advanced Materials. Awarded an OBE in 2015 for services to science and engineering. Formerly non-executive director and chairman of the remuneration committee of Laird plc (and a member of its audit committee) and before that, chairman of Ilika plc. An entrepreneur, he previously founded and ran companies in the engineering, telecommunications and biotechnology sectors. He was also an investment banker at Goldman Sachs and strategy consultant at Bain & Co.



Alison Wood
Independent
Non-executive Director

Age: 54

Joined: 2016

Committees: Remuneration

(Chairman), Audit, Nominations

Relevant skills and experience:

Currently a non-executive director and chairman of the remuneration committee of Costain Group plc, Cobham plc and the British Standards Institution. Formerly global director corporate development & strategy for National Grid plc and before that, group strategic development director for BAE Systems plc responsible for corporate strategy, mergers and acquisitions, and strategic business development across the UK and USA. Alison has previously held non-executive directorships at e2v technologies plc, BTG plc and THUS plc.



Lynton Boardman
General Counsel and
Company Secretary

Age: 51

Joined: 2012

Committees: Corporate

Responsibility, Risk

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.

Executive Management Board

The right team to lead TT



Richard Tyson
Chief Executive Officer

Joined: 2014

Relevant skills and experience: Richard has over 20 years' experience in the communications, aerospace and defence industries. Richard has previously held senior positions at Cobham plc.



Mark Hoad
Chief Financial Officer

Joined: 2015

Relevant skills and experience: Mark is a Chartered Accountant. He has previously held finance roles in BBA Aviation plc and RMC Group plc in Europe and Australia.



Lynton Boardman
General Counsel and
Company Secretary

Joined: 2012

Relevant skills and experience: Lynton qualified as a lawyer with Simmons & Simmons. Lynton was formerly head of legal at Syngenta Crop Protection (EMEA) and General Counsel and Company Secretary at QinetiQ Group plc.



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 joined from 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.



John Leighton-Jones
EVP Human Resources

Joined: 2010

Relevant skills and experience:

John has over 15 years' senior HR experience. John was previously HR director of QinetiQ Group plc.



Tim Roberts
EVP Sensors and
Specialist Components

Joined: 2008

Relevant skills and experience:

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



Michael Robinson
EVP Operations
and Supply Chain

Joined: 2014

Relevant skills and experience:

Michael has previously held positions in United Technologies and TE Connectivity. Michael's specialist skills lie in health and safety, environmental practices, lean operating systems, procurement and logistics.

Leadership

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 2017. Details and explanations of the application of the principles of corporate governance are set out in the following pages of this Governance section.

Details of TT’s Board of Directors are set out on pages 48 and 49 of this report. Pages 52 to 53 provide further information on how leadership at the Board level is discharged. Most importantly, the Board comprises a majority of independent Non-executive Directors, with the division of responsibilities between the Chairman and Chief Executive Officer having been clearly articulated. There were no changes in the composition of the Board during 2017.

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

Relations with stakeholders

With regard to shareholder engagement, the Chief Executive Officer and Chief Financial Officer meet with institutional investors immediately after publication of the annual and interim results, and on an ongoing basis as required. In 2017, this included investor roadshows held over a total of 17 days in respect of the annual and interim results. Feedback on Investor Relations issues is reported to the Board so that all Directors develop an understanding of major shareholders’ views on the Company. We issue trading updates and press releases as appropriate, and the Company’s brokers provide briefings on shareholder opinion, and compile independent feedback from investor meetings. Information offered at analysts’ meetings, together with our financial press releases, is available on the Group’s website. The Directors also use the Annual General Meeting to communicate with both institutional and private investors, which was repeated in August 2017 at the General Meeting to approve the sale of the Transportation Sensing and Control division.

From a wider stakeholder perspective, the Chief Executive Officer and the Chief Financial Officer visit the majority of the Group’s manufacturing sites during the course of each year, and this exercise was repeated in 2017 (other than the sites sold as part of the divestment of the Transportation division). During these visits, we schedule a “town-hall-style” meeting where employees are encouraged to ask questions of the Executive Management team. We supplemented this staff engagement process in 2017 with an increased focus on site-level “Corporate Social Responsibility” initiatives, as described on pages 40 to 45 of this report. These included dedicated Health & Safety, “Wellbeing” and “Community” based programmes. We also use the TT quarterly magazine, “BE TT News”, as a means of increasing employee engagement, as well as the annual Employee Engagement survey, which we run across all TT sites. The Non-executive Directors are encouraged to attend events such as the annual Leadership Conference and to visit manufacturing sites in order to meet a wider range of employees beyond the Executive Directors and members of the Executive Management Board (‘EMB’).

The key interactions with customers are primarily channelled through the Divisional Executive Vice Presidents (“EVPs”) and their management teams, supported by the CEO. However, we encourage the wider EMB team to support 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 initiatives to the Board at each scheduled meeting.

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.

During 2017, the Board comprised two Executive Directors (Richard Tyson and Mark Hoad) and five Non-executive Directors (Neil Carson, Stephen King, Michael Baunton, Jack Boyer and Alison Wood), who all served throughout the year. Stephen King served as Senior Independent Non-executive Director throughout 2017.

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, and during 2017 three such meetings took place (principally to consider M&A opportunities, including the divestment of the Transportation division and to discuss the recommended offer for Stadium Group plc). Each Board meeting during 2017 discussed strategic issues, and there was a two-day Board event in July 2017 devoted to consideration of strategic issues. The Board has held two principal meetings to date during 2018, plus one additional meeting to discuss the recommended offer for Stadium Group plc. We provide full details of each Director’s Board and Committee meeting attendance on page 54 and in the relevant Committee report.

Directors

We show Directors’ biographies, including the Committees they serve on and chair, on pages 48 and 49. At the time of his appointment as Chairman, Neil Carson was considered to be independent in accordance with the provisions of the Code. All the remaining Non-executive Directors are also considered to be independent as defined by the Code.

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

Directors' interests

The Directors of the Company at 31 December 2017 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 2017, 31 December 2017 and 5 March 2018:

	5 March 2018 Ordinary shares	31 December 2017 Ordinary shares	1 January 2017 Ordinary shares
Neil Carson	150,000	150,000	150,000
Richard Tyson	186,756	186,756	186,756
Mark Hoad	233,998	40,000	40,000
Stephen King	100,000	100,000	100,000
Michael Baunton	81,554	81,554	81,554
Jack Boyer	40,500	40,500	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 pages 73 to 75.

The Chairman and Chief Executive Officer

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

The Chairman maintains responsibility for: the leadership and effectiveness of the Board, and 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 in particular; ensuring constructive relations between Executive and Non-executive Directors; and ensuring effective communication with shareholders. He is also responsible for ensuring the performance of individual Directors, the Board as a whole, and its Committees are evaluated at least once a year.

The Chief Executive Officer is responsible for the operations of the Group. In particular, he is responsible for developing Group objectives and strategy, having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders and, following presentation to, and approval by, the Board, for the successful implementation and achievement of those strategies and objectives. His other areas of responsibility include: managing the Group's risk profile, including its health and safety performance; ensuring 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; and setting Group human resource policies, including management development and succession planning for the senior executive team.

Board procedures

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

Board Committees

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, 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.

Principal committees

The principal committees are the Nominations, Audit and Remuneration Committees. Details of the Nominations and Audit Committees, including brief descriptions of their terms of reference (full details of which are available for inspection by shareholders at the Annual General Meeting and on the Group's website) and duties, together with a summary of significant events which have taken place during the year, can be found on pages 56 to 61. Details of the Remuneration Committee and its activities are contained within the Remuneration report on pages 62 to 80.

Board meeting attendance 2017

We held seven principal Board meetings during 2017. Details of attendance are set out below:

Neil Carson	7 of 7
Richard Tyson	7 of 7
Mark Hoad	7 of 7
Michael Baunton	7 of 7
Stephen King	7 of 7
Jack Boyer	7 of 7
Alison Wood	7 of 7

Additional meetings of the Board and its principal committees take place as and when required throughout the year. During 2017, there were three such meetings. By necessity, these meetings are often convened at shorter notice than would be the case for principal meetings, although in 2017, each member of the Board recorded full attendance.

Beyond the principal meetings, the Board takes the opportunity to discuss important strategic and operational issues at Board dinners, which are scheduled to coincide with the principal meetings. The Non-executive Directors meet, without the Executive Directors present, at the end of each scheduled Board meeting, as a standing agenda item.

The Board very much focuses on organising its activities with a view to promoting the long-term success of the Group. This is demonstrated by the fact that a significant part of each scheduled Board meeting is now devoted to considering strategic priorities for TT, which (in 2017) included a two-day meeting devoted to strategic planning activities. This increased focus on strategic initiatives resulted in the successful completion of the sale of the Transportation division in October 2017, which received the overwhelming support of shareholders in General Meeting. Given that the transformation of the Group remains a key agenda item, the Board has taken steps to analyse how it can contribute most effectively to the further development of the Group (as described in further detail on page 47), with a view to positioning TT to meet its future growth aspirations by deploying the proceeds of the sale of the Transportation division in the most efficient manner possible.

Directors' attendance at meetings of the principal Committees on which they serve are detailed in the Nominations, Audit and Remuneration Committee reports on pages 56, 58 and 62.

Other committees

Corporate Responsibility Committee

The Corporate Responsibility Committee is chaired by the Chief Executive Officer and also comprises one independent Non-executive Director and four other senior executives from within the Group. The Committee met twice during 2017, with much of the deployment of CSR resource (in areas such as STEM and charitable giving) being managed at an individual site level. The Board receives regular reports on its activities.

The Corporate Responsibility Committee typically focuses its attention on five principal work streams, namely health and safety, environmental, human resources (under the theme "developing tomorrow's workforce"), supporting local communities and ethics. The operations of the Group's Health and Safety Council (which consists of representatives from all divisions and is chaired by the EVP Operations, Michael Robinson) directly feed into the Committee and are also considered in detail by the EMB (as the first item on each agenda) and the Board.

Further information on the activities of the Corporate Responsibility Committee is given in "The TT Way" corporate responsibility section on pages 40 to 45.

Risk Committee

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

The composition of the Risk Committee is the same as that of the Executive Management Board, and meetings are scheduled quarterly to align with meetings of the EMB. The Committee met three times in the past year.

Further information on the Group's risk management activities and framework is given in the Risk management section on pages 26 and 27 and in the Review of internal controls on page 57.

Disclosure Committee

The Disclosure Committee comprises the Executive Directors and has been established to review the potential existence of inside information across the Group, to manage the disclosure of such information, and to establish and maintain project insider lists, in accordance with UK securities law and regulation (including the Market Abuse Regulations).

Going concern

The Directors have reviewed the budgets for 2018 and the projections for 2019 developed during the 2017 annual strategic planning cycle. They have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities. 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 7 March 2018 and signed on its behalf by:



Lynton Boardman
Group General Counsel & Company Secretary

Effectiveness

Board and Committee performance evaluation

In accordance with the Code, the Board conducted an evaluation of its performance and that of its principal committees during 2017. The Company's FTSE SmallCap classification means there is no formal requirement to conduct external Board evaluation. Nevertheless, as part of the Board's Strategic Review exercise conducted in July 2017, the Company engaged an external facilitator (with expertise in the area of Board development) to review the operational dynamics of the Board and comment on areas of potential improvement and opportunities for further collaboration. This process was supported by one-on-one interviews conducted with members of the Board prior to the meeting. A key part of this exercise involved the Board undertaking a detailed assessment of the kind of business TT might aspire to be in the future, as well as the Board's risk appetite in leading the substantial anticipated growth in the Group's business.

In addition to the externally facilitated exercise described above, the Board also conducted an internal performance evaluation programme towards the end of 2017, led by the Chairman (as described below). The Board reflected on the positive developments made during 2017, particularly in the areas identified as points for improvement in the prior year's evaluation exercise, which included increased focus on TT culture, employee engagement and product/technology profiling. Overall, the Board concluded it had performed satisfactorily in 2017.

Directors' performance evaluation

In accordance with the Code, the performance of individual Directors was also evaluated during 2017.

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	

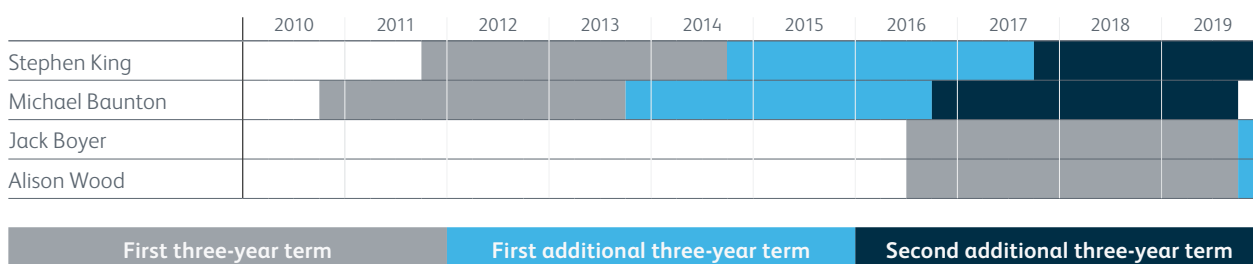
Committee meeting attendance 2017	Meetings attended	Potential meetings
Neil Carson (Chairman)	2	2
Michael Baunton	2	2
Jack Boyer	2	2
Stephen King	2	2
Alison Wood	2	2

Remit

The Nominations Committee's remit includes:

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

Non-executive Director length of service



Committee meetings in 2017

During 2017, the Committee held two formal meetings. The Committee has held no meetings to date during 2018.

2017 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.

In 2016, the Committee refreshed the Board structure to ensure it had an appropriate balance of skills and experience to meet the future needs of the business. This exercise resulted in the appointment of Jack Boyer and Alison Wood to the Board during 2016. The Committee continued to review the composition of the Board during 2017, but concluded that no further changes were necessary in 2017. The Committee also considered succession planning at the CEO and CFO level during 2017, as well as for other members of the EMB.

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.

Whilst there is no formal policy in place, the Board attaches a high degree of importance to diversity at all levels across the Group, which has 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 45.

Performance evaluation

The Committee assessed its performance in 2017 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

Accountability

Review of internal controls

In accordance with the UK Corporate Governance Code 2016, the Directors have overall responsibility for the Group's systems of risk management and internal control, and for reviewing their effectiveness at least annually. These systems have been in place for the full financial year. The Group remains committed to a policy of maintaining appropriate internal control over all of its activities. Controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are properly authorised, and that material errors and irregularities are prevented or, if controls are failing, are discovered and mitigated on a timely basis. The systems of control are reviewed regularly and improved where necessary, to meet the Group's requirements, as described above. Business risk evaluation takes place at operating company, divisional and Group levels through regular performance reviews and as part of the annual budget preparation process. Having identified risks, operating companies and divisions then monitor, review and update the associated controls to mitigate the risks appropriately.

Further details of the Group's exposure to risk and the processes in place to manage the same are set out on pages 26 to 29.

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, Divisional Executive Vice Presidents (i.e. heads of divisions) 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 2017. 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 2017, the Group continued to deploy its Financial Controls Framework which is to be applied by all entities in the Group. The updated Framework drives improvement and consistency in the Group's financial control environment, in many cases deploying system based controls to achieve control objectives. We successfully deployed the new Framework across all Group sites by the end of 2017, meeting the target set at the beginning of the year, with the exception of the sites sold as part of the Transportation division divestment.

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 2017 and during the period since then to the date of this report. They have made, and will continue to make, improvements where necessary.

Audit Committee



Stephen King
Chairman, Audit Committee

Membership:

Stephen King (Chairman) Michael Baunton
Jack Boyer Alison Wood

Committee meeting attendance 2017	Meetings attended	Potential meetings
Stephen King	4	4
Michael Baunton	4	4
Jack Boyer	4	4
Alison Wood	4	4

Remit

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

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

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

Committee meetings in 2017

During 2017, the Committee held four scheduled meetings.

The Committee met with the Group's Auditor, KPMG LLP, on three occasions during 2017, 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 2018.

2017 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.

In addition to standing agenda items, during 2017 the Committee also reviewed and considered matters including:

- an assessment of the progress made in the implementation of the revised Controls Framework programme, in particular the development of the controls environment at individual facilities (e.g. standardisation of processes)
- a review of Group controls in the areas of IT and Cyber Security
- the linkage of the Viability statement to the Group risk management framework.

Taxation and Treasury policy and procedure were included for consideration by the Committee on the 2017 forward planner, but, in each case, it was decided these items should be included on the Board agenda and considered by the Board as a whole, with specific input from the Chairman of the Audit Committee to the Board on the principal areas covered.

Whistleblowing matters reported through the Group's multi-lingual, anonymous Ethics and Integrity portal are reported to, and considered by, the Committee as and when they arise.

As with the past year, the Audit Committee has reviewed the Financial Reporting Council's letter of October 2017, addressed to FTSE 350 Audit Committee Chairs and CFOs, in the context of preparing the 2017 Annual Report. Although the Company was not a direct recipient of the FRC's letter, the Committee considered the key recommendations proposed by the FRC in detail and, where relevant to the Company, reflected them in this report.

The Committee has reviewed and challenged the form and content of the Group's Annual Report and Accounts and Financial Statements for 2017. 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 54 and the Viability statement on page 27. The Committee also considered and challenged items excluded from underlying profit and whether these were consistent with the accounting policy of the Group.

Significant issues considered in relation to the financial statements

The main areas of judgement and estimation are set out in the accounting policies on pages 97 to 104.

The Committee received and reviewed reports from management and the external Auditor setting out the significant issues in relation to the 2017 financial statements, which related to:

- Underlying profit and restructuring provisions
- Provisions (including taxation, divestment and product warranties)
- Carrying value of goodwill and fixed assets
- 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 2017; 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. On the basis of their audit work, the Auditor reported no inconsistencies or misstatements to the Group's disclosed accounting policy that were material in the context of the financial statements as a whole.

Provisions

(i) Taxation

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 2017 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. On the basis of its audit work, the Auditor reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole.

(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.

Audit Committee continued

Management has confirmed to the Committee that the provisions recorded at 31 December 2017 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. On the basis of their audit work, the Auditor reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole.

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

Carrying value of goodwill

As more fully explained in note 14, the total carrying amount of goodwill is £100.3 million at 31 December 2017.

Management has assessed the carrying value of goodwill using detailed calculations of value in use for each significant cash generating unit where impairment indicators existed to ensure that the carrying values are supported by forecast future discounted cash flows. The Committee reviewed and challenged management's assessment of value in use, the basis of key assumptions and sensitivities as outlined in note 14 and concurred with management's assessment. The Auditor explained to the Committee the results of their review of the estimate of value in use including their challenge of management's underlying cash flow projections, the key growth assumptions, discount rates and sensitivity analysis. On the basis of their audit work, no additional impairments that were material in the context of the financial statements as a whole were identified by the Auditor.

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 2017 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 2017 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. On the basis of their audit work, the Auditor reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole. Further information about the specific categories of provisions held by the Group is set out in note 19.

Going concern and viability statement

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

Misstatements

Management has confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The external Auditor reported to the Committee the misstatements that they had found during their work and that no material amounts remain unadjusted. 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 2016 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 2017, and the basis for the statement made by the Board on "Fair, balanced and understandable" on page 85, 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. 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 2017 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 2018.

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 2017, audit service fees paid to KPMG were £0.8 million, while non-audit service fees paid to KPMG totalled £0.2 million. This comprised non-audit service fees relating to advisory services relating to Class 1 transaction work, assistance relating to historical tax issues and UK grant claim reviews of £0.2 million. During 2017, non-audit service fees paid to KPMG represented 25 per cent of audit service fees paid to them during the same period, a decrease compared to 2016. 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 2017 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 pursuant to 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). In addition, it was agreed that the outsourced Internal Audit arrangement was working positively.

Stephen King
Chairman, Audit Committee

Directors' Remuneration report



Alison Wood
Chairman, Remuneration Committee

Membership:

Alison Wood (Chairman)	Michael Baunton
Jack Boyer	Neil Carson

Committee meeting attendance 2017	Meetings attended	Potential meetings
Alison Wood (Chairman)	5	5
Michael Baunton	5	5
Jack Boyer	5	5
Neil Carson	5	5

Annual Statement

Dear Shareholder,

On behalf of the Board I am pleased to introduce the Directors' Remuneration report for the year ended 31 December 2017. Executive Directors' remuneration continues to be evaluated in accordance with the Remuneration Policy approved by shareholders at the 2017 Annual General Meeting (AGM). The full Policy can be found on the Company's website, www.ttelectronics.com, or in the Directors' Remuneration report of the 2016 Annual Report and Accounts.

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

2017 has been a significant year for TT. The business has had a year of strong progress, delivering against the strategic priorities set in 2015. We have been focused with our resources and clear in our strategy. We have demonstrated our ability to execute major organisational and portfolio change following the sale of the Transportation division for £123.2m after customary working capital and net debt adjustments, net of cash disposed of with the business. As a result of the disposal, TT has increased its financial capacity and is in a stronger position to accelerate its strategy of investing in structural growth markets where there is increasing electronic content. The Group has recorded positive organic revenue growth from continuing operations of 5 per cent.

Our achievement against our key financial performance indicators is as follows:

- Profit Before Tax was £22.0m, up by 28 per cent at constant currency in continuing operations
- Free Cash Flow from continuing operations remained strong at £4.7m
- Underlying EPS on a continuing operations basis was 10.9p, up by 40 per cent.

As well as a strong financial performance, good progress has been made on TT's strategy to build leading positions in markets with structural growth drivers where there is increasing electronic content. We have focused our resources and R&D investment in areas where we can develop differentiated capabilities. We successfully launched 16 new products this year. Furthermore, we continue to 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 page 8 and pages 30 to 35). We remain focused on continued operational excellence including simplifying our supply chain (see pages 10 to 11). Finally, we have maintained our commitment to our people, culture and engagement. Our employees continue to manage and prioritise health and safety, resulting in another year of improved safety performance (see page 8 and page 25).

Key remuneration outcomes for 2017

The Group continued to grow and perform during the year, exceeding our financial targets. The Group also delivered strong strategic progress and the Remuneration Committee agreed the following outcomes:

- Base salaries for the CEO and CFO were increased by 2.5 per cent on 1 January 2018, slightly below the average for UK employees.
- The 2017 short-term incentive was based on Profit Before Tax (50 per cent), Group Free Cash Flow (25 per cent) and personal Strategic objectives (25 per cent). For the year ended 31 December 2017, Profit Before Tax grew 28 per cent to £22.0m which continues the growth trend of the business, Free Cash Flow performance was again strong at £4.7m with an underlying cash conversion of 98 per cent and the Executive Directors achieved their Strategic objectives, which led to 100 per cent of the maximum incentive payment for the CEO and CFO being payable. More detail on the short-term incentive outcome is set out on page 73.
- The Long-term Incentive Plan (LTIP) award granted in 2014 to the CEO was based on two measures, Earnings Per Share (EPS) and relative Total Shareholder Return (TSR) performance, measured over three years. Performance conditions were not met and the award lapsed on the third anniversary of the award. The joining LTIP award in 2014 for the CFO was based on relative TSR performance measured over a separate three-year period to 31 December 2017 and vested at 100 per cent of the maximum on 1 January 2018. Further details are set out on page 74.

Remuneration Policy and key decisions made during the year

In May 2017, we asked shareholders to approve our new Remuneration Policy as well as changes to the LTIP. We were pleased to receive votes in support from over 96 per cent of our shareholders for both of these resolutions. We believe the new Policy gives the Committee the right level of scope to ensure that remuneration is appropriate and to ensure future arrangements continue to align closely with TT's long-term strategy and deliver value to shareholders and other key stakeholders. As ever, the Remuneration Committee carefully considers every decision around executive remuneration.

During the year, the principal areas covered by the Committee included the:

- assessment of the annual short-term incentive levels for Executive Directors for 2016, payable in 2017;
- evaluation of vesting of the 2014 award under the LTIP for the CEO, neither the EPS nor the TSR performance conditions were achieved;
- increasing Executive Directors' minimum shareholding requirement from 100 per cent of salary to 200 per cent of salary to reflect current "best practice" governance guidelines;
- grant of the 2017 award under the LTIP, including a review of performance targets;
- review of total remuneration levels for the Chairman, Executive Directors and the next level of senior executives;

- review of the linkage between risk and reward in relation to remuneration structure;
- review of the UK gender pay reporting and the link to our Corporate and Social Responsibility;
- review and evaluation of performance conditions under the 2015, 2016 and 2017 LTIP as part of the portfolio development, including external advice;
- review and evaluation of performance conditions under the Executive Directors' 2017 annual short-term incentive plan as part of the portfolio development; and
- evaluation of performance conditions for the Executive Directors' 2018 annual short-term incentive plan, based on current and stretch performance targets for the business together with broker consensus forecasts.

Looking forward to 2018

The LTIP awards in 2018 will be made to reflect the EPS of the Group's continuing operations. Following the sale of the Transportation division on 2 October 2017, the Committee worked to assess the continued appropriateness of the EPS and TSR performance conditions in the 2015, 2016 and 2017 LTIP awards to ensure that the incentive arrangements remain fit for purpose. The TSR performance conditions remain unchanged across all award years. The EPS performance condition in the 2015 awards also remains unchanged and performance will be assessed on EPS including the underlying earnings of the Transportation division prior to the sale on 2 October 2017. We have adjusted the 2016 and 2017 EPS performance conditions to reflect the dilution and maintain the Executive Directors' focus on delivering the Company strategy for the remainder of the performance periods, recognising the improvements made in the business culminating in the sale of the Transportation division ahead of expectations. The Committee believes that the adjusted performance conditions retain an appropriate level of stretch in line with the original performance conditions and are fair, reasonable and are materially neither easier nor more difficult to achieve. More information is set out on pages 76 to 77.

In the year ahead, the Remuneration Committee will continue to monitor general trends in the remuneration of the TT workforce to review alignment and consistency with executive rewards. As the Company proceeds 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.

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

Set out over the following pages is 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. The full Remuneration Policy can be found in the 2016 Annual Report and Accounts which can be found at www.ttelectronics.com.

Executive Directors' remuneration

The Remuneration Committee believes 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

The key objectives of the Committee are to deliver a remuneration package:

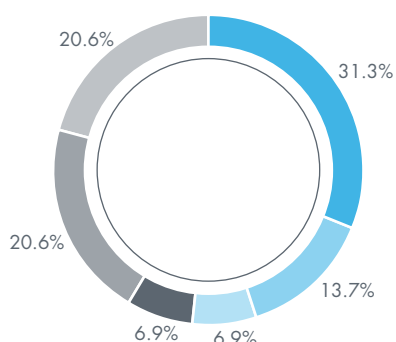
- to attract, retain and motivate high calibre executives in a challenging and competitive business environment;
- that delivers an appropriate balance between fixed and variable compensation for each executive;
- that places a strong emphasis on performance, both short-term and long-term;
- strongly 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

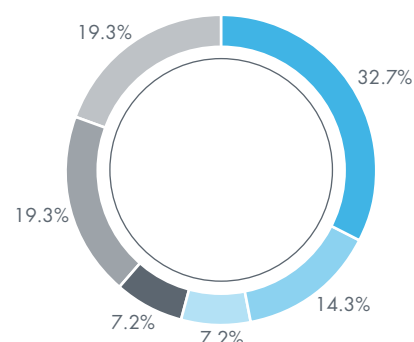
- **Transparency:** in order to engender a fair and collaborative culture, total remuneration frameworks should be clear and openly communicated.
- **Competitive:** through a combination of base salaries and competitive performance-related incentive schemes, the Committee aims to provide competitive 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. In ascertaining the appropriate level of base salary, account is also taken of prevailing market and economic conditions together with salary levels across the Group.
- **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 set performance thresholds leads to no pay-out under the Group's short-term or long-term incentive arrangements.

The Remuneration Policy supports and rewards the achievement of the Group's strategy to delivery profitable and sustainable growth. This is driven and evaluated by how the Group performs against a variety of KPI's both financial and non-financial. Our remuneration KPI's below complement the strategic KPI's on pages 24 to 25. The proportion of fixed remuneration and the variable components, coupled with the respective KPI is laid out below. The short-term and long-term components reflect the maximum potential opportunity. The long-term component is the intended face value of the 2018 LTIP awards.

Richard Tyson (2018)



Mark Hoad (2018)



- 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)

Remuneration KPI

Profit before tax
Free cash flow
Strategic objectives
Earnings per share
Total shareholder return

Incentive link

Short-term incentive primary financial measure
Short-term incentive secondary financial measure
Short-term incentive strategic milestones
Long-term incentive EPS measure
Long-term incentive TSR measure

Consideration of shareholder views

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 engages directly with major shareholders and their representative bodies on the proposals for material changes to the Remuneration Policy. During 2017, the Committee engaged

our major institutional investors and ISS and IVIS on the proposed adjustments to the EPS performance conditions in the LTIP following the sale of the Transportation division. The Committee received limited feedback from institutional investors and feedback received was supportive. Details of votes cast for and against the resolution to approve last year's Remuneration report and any matters discussed with shareholders during the year are set out in the Directors' Annual Remuneration report.

Directors' Remuneration Policy continued

Remuneration Policy table

The table below sets out the Remuneration Policy that was approved at the AGM held on 12 May 2017 and applied to Executives; the Policy remains unchanged.

Element of remuneration	Purpose and link to strategy	Operation
Salary		
Core element of remuneration. Competitive salaries should attract and retain the best talent.	<p>The Committee considers a number of factors in setting salaries, including but not limited to:</p> <ul style="list-style-type: none"> • broader Company policy applied to all employees; • scope of the individual and their performance; • competitiveness compared to companies of similar complexity, sector and size; • ensuring it provides an appropriate level of basic fixed income and avoids excessive risk arising from over reliance on variable income; • general external factors such as inflation. 	<p>Paid in cash.</p> <p>Normally reviewed annually, effective 1 January.</p>
Pension		
Provides a market competitive level of provision for post-retirement.	The Company contributions may be made into a pension scheme or as a salary supplement.	Contributions are set as a percentage of base salary only.
Benefits		
Provides market competitive benefits at an appropriate cost.	To aid retention and recruitment the Company offers a range of cash and benefits in kind to Executive Directors.	<p>Executive Directors are eligible to receive benefits, which typically may include (but are not limited to):</p> <ul style="list-style-type: none"> • cash allowance in lieu of company car allowance; • the provision of private health and medical insurance; • health screening; • life assurance; • income protection and critical illness cover. <p>Where Executive Directors are required to relocate, the Committee may offer relocation and, if appropriate, additional expatriate benefits. These may include but are not limited to, removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation.</p>
Short-term Incentive Plan		
To incentivise the delivery of annual targets aligned to corporate strategy and reward delivery of stretch performance.	<p>Incentivises annual delivery of financial and strategic goals.</p> <p>Maximum short-term incentive only payable for achieving stretch performance targets.</p>	<p>Paid in cash, not pensionable.</p> <p>Short-term incentive payments may be partially repaid or fully clawed back to the Company if any material profit, cash flow, or accounting irregularities are identified after payment has been made to the extent that such errors or irregularities would have affected the short-term incentive payable.</p>

Maximum	Performance targets
<p>There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population although larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group).</p> <p>Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.</p> <p>Current base salary levels are set out in the Directors' Annual Remuneration report.</p>	<p>Not applicable, although overall performance is taken into account during the salary review.</p>
<p>Company contributes up to 15% of base salary.</p>	<p>Not applicable.</p>
<p>There is no overall maximum as the level of benefits depends on the annual cost of providing individual items in the relevant local market and the individual's specific role:</p> <ul style="list-style-type: none"> the provision of benefits is reviewed on an annual basis to ensure appropriateness in terms of type and level; the Committee retains flexibility to add or remove benefits from the stated list if it considers it appropriate and reasonable; benefit provision will not exceed what the Committee reasonably considers to be a market competitive level. 	<p>Not applicable.</p>
<p>The maximum potential is 100 per cent of base salary in respect of any financial year.</p>	<p>The Committee considers annual performance targets taking into account the Group strategy and corporate plan.</p> <p>Targets will provide a balance between profit, cash and other strategic goals to drive long-term sustainable returns.</p> <p>The specific measures and weighting are reviewed on an annual basis to ensure alignment with strategy and budgets. Specific performance measures will be included in the relevant year's Annual Report.</p> <p>At least 75 per cent of the short-term incentive will be based on the achievement of Group Financial targets.</p> <p>Target ranges and payout schedules are determined annually by the Committee within the maximum short-term incentive potential.</p> <p>The Committee exercises its judgement on the level of incentive payable for outcomes short of maximum to ensure alignment of pay with performance and with shareholder interests.</p>

Directors' Remuneration Policy continued

Element of remuneration	Purpose and link to strategy	Operation
Long-term Incentive Plan		
Rewards longer-term value creation, aligns Executive Directors' interests with those of shareholders and aids retention of senior managers.	Aligned to main strategic objectives of delivering sustainable profit growth and shareholder return.	<p>Annual grant of nil cost options or performance shares which normally vest after three years, subject to continued service and the achievement of stretching performance targets measured over three years. At the Committee's discretion, there may be a single target range to be met at the end of the three-year period or annual target ranges to be met throughout the three-year period.</p> <p>It is a requirement of the LTIP that net vested shares are held for a further two years following the vesting date.</p> <p>Malus provisions apply during the three-year performance period.</p> <p>Clawback provisions apply during the two-year holding period.</p>
All-employee Share Plans		
Allows employees (including Executive Directors) the opportunity to invest personally in the Group and share in its success.	To encourage employee share ownership and therefore increase alignment with shareholders.	<p>A number of all-employee share plans are operated across the Group.</p> <p>Executives are entitled to participate in all-employee share plans on the same terms as all other eligible employees. For eligible UK, German and Austrian-based employees the Sharesave plans offer a three-year savings period, with up to a 20 per cent discount to the market value of the shares at the point of grant. For eligible US-based employees, the Employee Share Purchase Plan offers an opportunity to purchase shares each quarter, with a 15 per cent discount to the market value of the shares at the point of purchase.</p>
Share Ownership Guidelines		
	To provide alignment between executives and shareholders.	Executive Directors are required to build and maintain a shareholding equivalent to 200 per cent of base salary.
Non-executive Director (NED) fees		
To attract NEDs who have a broad range of skills and experience to oversee the implementation of strategy.	<p>Reflects time commitments and responsibilities of each role.</p> <p>Reflects fees paid by similarly sized companies.</p>	<p>NED's receive a basic fee paid monthly in respect of their Board duties.</p> <p>Further fees are paid in respect of Board committee chairmanships and the role of Senior Independent Director. No additional fees are payable for membership of a Board committee.</p> <p>The Non-executive Chairman receives an all-inclusive fee for fulfilling the role.</p> <p>The fee of the Non-executive Chairman is set by the Committee. The Chairman and Executive Directors are responsible for determining NED fees.</p> <p>Fees are normally reviewed annually.</p> <p>Non-executives will be reimbursed for business expenses (grossed up for tax where appropriate) relating to the performance of their duties including travel, accommodation and subsistence.</p>

Maximum	Performance targets
<p>The maximum face value of an award which may be granted under the plan in any year is up to 150 per cent of base salary for the Executive Directors.</p> <p>Dividend equivalents are payable in respect of the shares which vest.</p> <p>The amount that is paid out for achievement of threshold performance is 25 per cent of the maximum. The minimum vesting is 0 per cent.</p>	<p>Awards vest based on a variety of financial and/or shareholder value creation measures.</p> <p>LTIP performance is currently measured over three years based on financial (e.g. EPS) and/or share price measures (e.g. relative TSR).</p> <p>If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.</p> <p>The targets for the performance period are reviewed at the start of each award cycle to ensure alignment to strategy.</p>
In-line with prevailing legislative limits.	Not applicable.
Not applicable.	Not applicable.
<p>Current fee levels can be found in the Directors' Annual Remuneration report on page 72.</p> <p>Fees are set at levels to attract and retain the right calibre of individual and are positioned with reference to comparable companies.</p>	Not applicable. Non-executive Directors do not participate in variable pay arrangements.

Directors' Remuneration Policy continued

Notes to Remuneration Policy table:

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before AGM 2017 (the date the Company's shareholders approved the Directors' Remuneration Policy); (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Performance measures and targets

The Committee believes the choice of performance measures for the short-term and long-term incentive plans represent an appropriate balance between the short-term and long-term focus of the Group's strategic aims and key performance indicators, as well as an appropriate balance between internal and external assessment of performance. Performance measures for the short-term incentive are tied to the Company's delivery of key financial metrics and strategic objectives. The measures applicable to the LTIP reward the delivery of long-term returns to shareholders and the Group's financial growth being consistent with the Company's objective of delivering superior levels of long-term value to shareholders. When setting targets, the Committee takes into account a variety of factors, including but not limited to market practice, market expectations and internal business plans and forecasts. In setting the targets, the Committee ensures that they are sufficiently stretching and that there is an appropriate balance between incentivising Executive Directors to meet targets for the year, whilst ensuring that they do not drive unacceptable levels of risk and encourage inappropriate behaviours.

Discretion

The Committee has discretion in a number of areas of the Policy as set out in the report. The Committee may also exercise administrative and operational discretion under plan rules, including relevant LTIP rules approved by shareholders. The Committee may make minor amendments to the Policy set out in this Policy report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

The Committee may vary or waive any performance condition(s) if an event occurs which causes it to determine that the original condition(s) have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition would have been but for the event in question (in its opinion). The Committee may also adjust the calculation of performance targets and vesting outcomes (for instance, for material acquisitions, investments or disposals and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period. In the event that the Committee were to make an adjustment of this sort, a full explanation would be provided in the next Directors' Annual Remuneration report.

Remuneration arrangements throughout the Group

The Remuneration Policy described above provides an overview of the structure that operates for the most senior executives in the Group. Remuneration arrangements for the wider employee population are based on the principle that reward should help deliver the business strategy and should be sufficient to attract and retain talent. To the extent practicable, reward practices for Executive Directors are cascaded down the organisation, such that employees are aligned towards common goals.

The Group operates in a number of different geographic territories and has many employees who carry out a range of diverse roles. The remuneration of all employees, including executives, is set by market comparatives and the impact of the role. The ratio between fixed and variable pay for employees differs by level, geographic location and Division. A number of performance-related pay schemes operate across the Group which can differ in structure and metrics from those applying to executives. These schemes include a consistent approach to site-based profit share schemes which support the delivery of our strategic priorities to improve both customer and operational performance.

Participation in the LTIP is offered to the most senior executives and those identified as having the greatest potential to influence performance within the Group. In order to encourage wider employee share ownership, the Company also operates a Sharesave Plan in the UK and an Employee Stock Purchase Plan in the US, in which all UK and US employees are eligible to participate.

Directors' Annual Remuneration report

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

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2018 is set out below.

Basic salary and benefits

The Remuneration Committee agreed to increase Executive Director base salary levels by 2.5% with effect from 1 January 2018, the increase is broadly in line with the general workforce. Current base salary levels and those applied during the year ended 31 December 2017 are as follows:

Executive	2018	2017
Richard Tyson	£455,446	£444,338
Mark Hoad	£348,283	£339,788

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

Pension arrangements

The Company contributed 15 per cent of salary either to a defined contribution arrangement and/or as a salary supplement for each Executive Director. The Committee believes that the pension arrangements are acceptable and appropriate, being broadly market competitive.

Short-term Incentive Plan

The maximum incentive potential for the year ending 31 December 2018 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) as set at the beginning of the 2018 financial year.

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 Committee does not believe that it would be in shareholders' interests to prospectively disclose the actual targets in advance due to issues of commercial sensitivity. However, retrospective disclosure will be provided of both financial and Strategic objectives used in the prior year in each Directors' Remuneration report, with an explanation as to how the Company performed against the targets and resulting payments.

The targets have been 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.

Long-term Incentive Plan

It is intended that LTIP awards will be made in March 2018, whereby the Executive Directors will be granted awards in line with the existing Remuneration Policy. Awards will be of shares worth 150 per cent of salary for the CEO and 135 per cent of salary for the CFO at the date of grant. 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.

As in 2017, the performance targets will be based on EPS and TSR. 50 per cent of the award will be based on targets for growth in the Group's continuing operations EPS over the three-year period to year ending 31 December 2020. 25 per cent of the shares subject to this part of the award will vest for EPS growth of 5 per cent compound per annum, increasing on a straight-line basis to 100 per cent vesting for EPS growth for the year ending 31 December 2020 of 12.5 per cent compound per annum.

50 per cent of the award will be based on the Company's TSR performance targets against the FTSE SmallCap (excluding Investment Trusts). The three-year TSR performance period ceases on the third anniversary of the award date. 25 per cent of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100 per cent vesting at the upper quartile of the comparator group.

The performance measures chosen ensure the alignment of senior management's and shareholders' interests. The target ranges for the 2018 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. In line with previous LTIP awards granted in 2018 will be subject to potential withholding (malus) or recovery (clawback) if specified events occur prior to the third anniversary of the release date of an award. Relevant events in respect of LTIP awards will comprise a material misstatement of the audited results, error in the calculation of the extent of LTIP vesting or gross misconduct which could have warranted an individual's summary dismissal.

In light of the current circumstances, the Committee will consider the impact of any significant future portfolio development on the outstanding performance targets at the time of the capital deployment. The impact will be considered where the capital deployment is in excess of the planned portfolio development at the time the targets were set. Any further changes to the performance targets in these circumstances will be communicated to shareholders.

Directors' Annual Remuneration report continued

Non-executive Directors

The Company's approach to Non-executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the Chairmanship of Board Committees. For 2018, the Chairman's fee and the base Non-executive Director's fee have been increased by 2.5 per cent and there have been small adjustments to the additional fees for chairmanship of Board committees and the role of Senior Independent Director. A summary of current fees is as follows:

	2018	2017
Chairman	£183,859	£179,375
Base fee	£44,044	£42,970
Additional fees: ¹		
Senior Independent Director	£6,000	£5,000
Audit Committee Chair	£8,000	£7,000
Remuneration Committee Chair	£8,000	£7,000

(1) Additional fees have been increased in line with market competitiveness and reflect responsibilities for the role, they were previously increased in 2010. The Senior Independent Director fee was introduced in 2017 and set in relation to the value of the Audit and Remuneration Committee Chair fees at that time.

Implementation of the Remuneration Policy for the year ending 31 December 2017

Single figure for total remuneration (audited)

Directors' remuneration for the year ended 31 December 2017 was as follows:

£'000		Salary/fees ¹	Taxable benefits ²	Pension ³	Short-term Incentive ⁴	Long-term Incentive ⁵	Other ⁶	Total
Executive Directors								
Richard Tyson	2017	444	22	67	444	819	–	1,796
	2016	434	21	65	434	–	198	1,152
Mark Hoad	2017	340	19	51	340	1,288	–	2,038
	2016	332	18	50	332	–	–	732
Chairman								
Neil Carson	2017	179	–	–	–	–	–	179
	2016	175	–	–	–	–	–	175
Non-executive Directors								
Michael Baunton	2017	43						43
	2016	42						42
Stephen King ^(a)	2017	55						55
	2016	49						49
Jack Boyer ^(b)	2017	43						43
	2016	23						23
Alison Wood ^(c)	2017	50						50
	2016	22						22
Former Directors								
John Shakeshaft ^(d)	2017	0						0
	2016	32						32

(a) Stephen King receives the Senior Independent Director fee from 1 January 2017

(b) Jack Boyer was appointed as a Non-executive Director on 10 June 2016

(c) Alison Wood was appointed as a Non-executive Director on 11 July 2016 and appointed as Remuneration Committee Chair on 31 August 2016

(d) John Shakeshaft resigned on 31 August 2016

1. Base salary/fees

Base salaries for Executive Directors were reviewed in December 2016 and were increased by 2.5 per cent with effect from 1 January 2017. Base fees for Non-executives were reviewed in January 2017 and were increased by 2.5 per cent with effect from 1 January 2017. A fee of £5,000 was introduced in respect of the Senior Independent Director; no other changes were made to the fees for the Chairman or the Chairmanship of Board Committees.

2. Taxable benefits

The Executive Directors' taxable benefits consist of a car allowance and insurance benefits.

3. Pensions

Employer contributions are paid at 15% of base salary, as defined contribution pension and/or a cash supplement.

4. Short-term incentive

The short-term incentive payments represented in the table above were based on performance against Group Profit Before Tax (up to 50 per cent of salary), Group Free Cash Flow (up to 25 per cent of salary) and strategic objectives (up to 25 per cent of salary) as measured over the 2017 financial year.

On 2 October 2017 the Company completed the sale of its Transportation division. In line with common market practice and to reduce complexity in the short-term incentive calculations, both the financial targets of Group Profit Before Tax and Group Free Cash Flow were restated to remove the 2017 financial plan budgeted performance of the disposed Transportation division for the entire performance year. Full-year financial targets are therefore based on continuing operations only.

The 2017 strategic objectives centred on the strategic development of the Group. The CEO and CFO had shared strategic objectives in 2017 focused on: realising value from the Transportation division to enable the acceleration of the Group strategy; and developing and defining the Group portfolio strategy to create strategically aligned optionality for organic and inorganic capital redeployment to accelerate growth. To accelerate the Group strategy the CEO led the Board review of the Group's strategic plan including the risks and opportunities associated with the further development of the Divisions, with particular focus on the Transportation division and further value creation. The review considered the option of moving the Transportation division to scale, operating the Division as a joint venture with strategic partners or disposing of the business to realise the value generated through the turnaround of the Division. Following the review the Transportation division was sold to AVX Corporation for a cash consideration of £123.2m after customary working capital and net debt adjustments, net of cash disposed of with the business. The sale allows TT to accelerate its strategy of investing in structural growth markets where there is increasing electronic content.

The Remuneration Committee carried out a thorough review of the achievement of the strategic objectives, in particular considering the significant focus and effort required to accelerate the Group portfolio strategy through the sale of the Transportation division which realised value in excess of expectations. Concurrently, the focus on the continuing operations delivered organic revenue growth of 5 per cent coupled with strong in year Profit Before Tax and Cash Flow performance together with an improved order book going into 2018. A full portfolio review of the continuing operations has been concluded, enacting a strategic plan for capital deployment to enhance organic growth and strategically aligned inorganic capital redeployment. The Committee also recognises the continued cultural progress in HSE, working toward delivering a zero harm environment, and the progress toward a highly engaged workforce in line with the TT Way (see pages 40 to 45).

The Remuneration Committee considered whether the overall outturn performance reflected the performance of the Group and believes the awards are appropriate. Based on the Committee's assessment of achievement for both the financial and strategic objectives, the short-term incentive was calculated as follows:

Short-term incentive payments for 2017¹

Performance measure	Threshold potential (% of salary)	Maximum potential (% of salary)	Required for threshold bonus (£m)	Required for maximum bonus (£m)	Out-turn for incentive plan purposes (£m)	Achievement (% of salary)
Group Underlying Profit Before Tax	5 %	50 %	17.6	20.0	20.9	50 %
Group Free Cash Flow	2.5 %	25 %	(5.0)	(1.1)	9.6	25 %
Strategic objectives	n/a	25 %			See above	25 %
Total (% of salary)		100 %				100 %

(1) Short-term incentives are measured using budgeted exchange rates.

Directors' Annual Remuneration report continued

Performance for the financial elements of the plan (PBT and Free Cash Flow) has been strong. The Committee assessed each discrete element of the short-term incentive scheme separately, to form a rounded assessment of performance of the Executive Directors at the end of the financial year. In determining the final level of bonus payable, the Committee considered the wider performance of the Group and noted that management was continuing to make fundamental improvements to the Group. On the basis of the above, the short-term incentive pay out of 100% of maximum for the CEO and CFO reflects the strong underlying performance of 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, typically 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 2014 and 2015 LTIP awards had performance periods that ended on or by 31 December 2017 which are therefore included in the single figure for total remuneration for 2017. LTIP values shown in the single figure include dividend equivalents:

2014 LTIP: Relative TSR against comparator group

Award year and performance measure	Threshold (25% vesting)	Maximum (100% vesting)	Outcome	Percentage of maximum achievement
2014 LTIP award: Relative TSR performance against the FTSE SmallCap (excluding Investment Trusts)	Median rank	Upper quartile rank or above	37 Percentile (Below median)	0%

The long-term incentive award granted to Richard Tyson on 22 August 2014 was subject to two performance conditions, each measured over three-year periods. 50 per cent of the award is based on EPS growth in excess of the Retail Price Index (RPI) for the three-years up to 31 December 2016. 50 per cent of the award is based on TSR performance against the FTSE SmallCap (excluding Investment Trusts) for the three-year period ending 9 May 2017. The award did not reach either the EPS or TSR performance condition and the award lapsed on the third anniversary of the grant date. The performance period for the EPS element ended in 2016 and the vested value (zero) is included in the 2016 single figure for total remuneration. The performance period for the TSR element ended in 2017 and the vested value (zero) is included in the 2017 single figure for total remuneration.

2014 New hire award to CFO: Relative TSR against comparator group

Award year and performance measure	Threshold (25% vesting)	Maximum (100% vesting)	Outcome	Percentage of maximum achievement
2014 New hire award for Mark Hoad: Relative TSR performance against the FTSE SmallCap (excluding Investment Trusts)	Median rank	Upper quartile rank or above	94 Percentile (Above upper quartile)	100%

The new hire long-term incentive award granted to Mark Hoad on 29 December 2014 was subject to a TSR performance condition measured against the FTSE SmallCap (excluding Investment Trusts) over a three-year period ending 31 December 2017. The achieved TSR performance was above the maximum and 100% of the award vested.

2015 LTIP: Absolute EPS performance for financial year end 31 December 2017

Award year and performance measure	Threshold (16.7% vesting)	Maximum (100% vesting)	Outcome	Percentage of maximum achievement
2015 LTIP award: Absolute EPS performance for financial year ended 31 December 2017	10.0p	12.4p	14.6p (Above upper quartile)	100%

The long-term incentive amounts shown in 2017 for both Executive Directors include the EPS performance condition of the awards on 18 March 2015. The EPS performance period ended on 31 December 2017 and an estimate of the vested value of the EPS element of this award is included in the 2017 single figure. The estimated value takes into account the average share price in the final quarter of 2017 and the expected value of the dividend equivalents for the EPS element of the award. The value of the TSR element of this award will be included in the 2018 single figure in line with the TSR performance period ending in 2018.

In accordance with the setting of the EPS performance condition and the sale of the Transportation division three months from the end of the 36-month performance period, EPS performance has been assessed on the actual full year EPS plus actual year to disposal underlying earnings of the Transportation division. This provides consistency with the basis on which the EPS targets were originally set. The following table outlines the audited calculation of the 14.6p EPS for actual full year EPS plus actual year to disposal underlying earnings of the Transportation division.

Pro-forma EPS total operations

	Continuing Operations	Discontinued Operations	Total
Underlying operating profit	24.3	12.6	36.9
Proforma depreciation adjustment ¹	–	(3.2)	(3.2)
Net interest	(2.3)	0.1	(2.2)
Profit before tax	22.0	9.5	31.5
Underlying taxation	(4.4)	(3.4)	(7.9)
Underlying earnings	17.6	6.0	23.6
Weighted average number of shares	161.7	161.7	161.7
Underlying EPS	10.9	3.7	14.6

(1) Adjustment to charge depreciation on discontinued operations suspended from 30 June 2017 due to classification as an asset held for sale.

6. Other

The amount shown in 2016 relates to the second and final tranche of the award granted to Richard Tyson on 22 August 2014, the first tranche vested on 27 April 2015. The award, in accordance with Listing Rule 9.4.2 (2), was made in recognition of the loss of forfeited awards from his former employer. The award was subject to continuing employment with the Company on the relevant vesting dates, and typical good leaver/change of control provisions. On 27 April 2016, a proportion of the share award granted on 22 August 2014 to Richard Tyson vested. The value of the proportion vesting in 2016 was £198,487 and included dividend equivalents.

Long-term incentives granted during the year (audited)

On 15 March 2017, 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	100%	166.7	266,565	444,338	25%	15/03/2020
Mark Hoad	100%	166.7	203,844	339,788	25%	15/03/2020

(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

Awards to Executive Directors during 2017 will be subject to performance measures on the following basis:

EPS

The performance condition attached to 50 per cent of the award is based on the Group's EPS performance for the year ending 31 December 2019. 25 per cent of the shares subject to this part of the award will vest for EPS growth of 5 per cent compound per annum, increasing on a straight-line basis to 100 per cent vesting for EPS growth for the year ending 31 December 2019 of 12 per cent compound per annum.

In assessing the performance of the 2017 award following the sale of the Transportation division, the Committee has determined that the most appropriate basis for assessing performance against EPS growth is to use earnings reflecting continuing operations. Following review, the Committee has elected to use a significantly higher, and more stretching, 2016 base year EPS of 8.9 pence than the actual 2016 underlying EPS of 7.8 pence for continuing operations. This upward adjustment ensures that there is a fair and consistent approach to interest charges and tax rates that are expected to be experienced by the continuing operations of the Company. The Committee believe that the adjusted performance conditions retain an appropriate level of stretch in line with the original performance conditions and are fair, reasonable and are materially neither easier nor more difficult to achieve.

TSR

The performance condition attached to 50 per cent of the award is based on the Company's TSR performance against the FTSE SmallCap (excluding Investment Trusts). The three-year TSR performance period ceases on the third anniversary of the award date. 25 per cent of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100 per cent vesting at the upper quartile of the comparator group.

Malus provisions apply during the three-year performance period and clawback provisions apply.

Directors' Annual Remuneration report continued

Outstanding share awards

The tables below set out details of outstanding share awards held by Executive Directors.

At 31 December 2017, Directors' interests under the LTIP were as follows:

Executive	Date of grant	1 January 2017	Granted during the year	Lapsed	Vested	31 December 2017	Market value at 31 December 2017 (£) ¹	Market price at grant date (pence)	Vesting date
Richard Tyson	22/08/2014	223,214 ²		223,214		0	0	171	22/08/2017
	18/03/2015	680,000 ⁴				680,000	1,521,500	125	18/03/2018
	16/03/2016	341,661 ⁵				341,661	764,466	159	16/03/2019
	15/03/2017		266,565 ⁶			266,565	596,439	167	15/03/2020
Total						1,288,226	2,882,406		
Mark Hoad	29/12/2014	330,452 ³				330,452	739,386	101	01/01/2018
	18/03/2015	390,000 ⁴				390,000	872,625	125	18/03/2018
	16/03/2016	209,016 ⁵				209,016	467,673	159	16/03/2019
	15/03/2017		203,844 ⁶			203,844	456,101	167	15/03/2020
Total						1,133,312	2,535,786		

- (1) The market value at 31 December 2017 represents the total number of shares awarded multiplied by 223.75 pence, being the share price on 29 December 2017. The calculation does not take into account the likelihood of vesting.
- (2) In 2014, as previously disclosed, Richard Tyson received an LTIP allocation. The award did not reach either the EPS or TSR performance condition and the award lapsed on the third anniversary of the grant date.
- (3) This award vested on 1 January 2018 and was subject to achievement of a three-year performance condition ending 31 December 2017, based on TSR performance against the FTSE SmallCap (excluding Investment Trusts). 25 per cent of the shares subject to this award vest at median performance increasing on a straight-line basis to 100 per cent vesting at the upper quartile of the comparator group. TSR performance was above the upper quartile and the award vested at 100 per cent.
- (4) The performance condition attached to 50 per cent of the award is based on EPS. 16.7 per cent of the shares subject to this part of the award will vest for the Company's EPS for the financial year ended 31 December 2017 of 10.0 pence, increasing on a straight-line basis to 66.7 per cent vesting for EPS of 11.5 pence, increasing on a straight-line basis to 100 per cent vesting for EPS of 12.4 pence. The performance condition attached to the other 50 per cent of the award is based on TSR performance against the FTSE SmallCap (excluding Investment Trusts). 16.7 per cent of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100 per cent vesting at the upper quartile of the comparator group.
- (5) The performance condition attached to 50 per cent of the award is based on EPS. 25 per cent of the shares subject to this part of the award will vest for EPS growth of 7.7 per cent compound per annum, increasing on a straight-line basis to 100 per cent vesting for EPS growth of 14.5 per cent compound per annum over the three-year performance period. Further detail of the EPS performance condition can be found below. The performance condition attached to the other 50 per cent 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 per cent of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100 per cent vesting at the upper quartile of the comparator group.
- (6) The performance condition attached to 50 per cent of the award is based on EPS. 25 per cent of the shares subject to this part of the award will vest for EPS growth of 5 per cent compound per annum, increasing on a straight-line basis to 100 per cent vesting for EPS growth for the year ending 31 December 2019 of 12 per cent compound per annum. The performance condition attached to the other 50 per cent 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 per cent of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100 per cent vesting at the upper quartile of the comparator group.

Adjustments to the performance conditions of the 2016 and 2017 LTIP awards

Following the sale of the Transportation division on 2 October 2017, the Committee has adjusted the EPS performance conditions in the 2016 and 2017 LTIP awards to ensure that the incentive arrangements remain "fit for purpose". The Committee believes that the adjusted performance conditions retain an appropriate level of stretch in line with the original performance conditions and are fair, reasonable and are materially neither easier nor more difficult to achieve.

The changes seek to maintain the Executive Directors' alignment on delivering the Company strategy for the remainder of the performance periods, recognising the improvements made in the business culminating in the sale of the Transportation division ahead of expectations. The TSR performance conditions remain unchanged across all award years.

For LTIP awards made in 2016, the existing EPS compound growth performance conditions, detailed in the above notes to the outstanding share awards table, remain appropriate and unchanged. The sale completed toward the middle of the 36-month performance period and the Company's EPS growth over the performance period will be calculated as a combination of the following two elements:

- EPS growth for the 12 months to 31 December 2016 including Transportation division performance in both the 2015 base year and 2016 performance EPS figures; and
- EPS growth for the 24 months to 31 December 2018 will be assessed on continuing operations only. Following review, the Committee will use a significantly higher and more stretching 2016 base year EPS of 8.9 pence than the actual 2016 underlying EPS of 7.8 pence. This upward adjustment ensures that there is a fair and consistent approach to interest charges and tax rates that are expected to be experienced by the continuing operations of the Company.

For LTIP awards made in 2017, the existing EPS compound growth performance conditions, detailed in the above notes to the outstanding share awards table, remain appropriate and unchanged. The sale completed early in the performance period and EPS performance will be assessed using earnings reflecting continuing operations with the additional upward adjustment in the 2016 base year EPS to 8.9 pence as outlined above.

TT Electronics plc Sharesave scheme

Executive	Date of grant	1 January 2017	Granted during the year	Lapsed	Exercised	31 December 2017	Potential gain at 31 December 2017 (£) ¹	Option price (pence)	Exercisable between/ exercised on
Richard Tyson	22/09/2015	13,740				13,740	12,744	131	11/11/2018–30/04/2019
Mark Hoad	22/09/2015	13,740				13,740	12,744	131	11/11/2018–30/04/2019

(1) The potential gain at 31 December 2017 represents the total number of shares under option multiplied by 223.75 pence, being the share price on 29 December 2017, less the option price. The calculation assumes that the Executive Director remains employed and completes the saving contract.

Payments to past Directors (audited)

No payments were made in 2017.

Payments for loss of office (audited)

No payments were made in 2017.

Statement of Directors' shareholding and share interests (audited)

Executive	Beneficially owned at 1 January 2017	Beneficially owned at 31 December 2017	Unvested share awards subject to company performance conditions	Outstanding share awards under all employee share plans as at 31 December 2017	Shareholding as a % of salary at 31 December 2017	Value of beneficially owned at 31 December 2017 (£)	Basic salary at 31 December 2017
Executive Directors							
Richard Tyson	186,756	186,756	1,288,226	13,740	94.0%	417,867	444,338
Mark Hoad	40,000	40,000	1,133,312	13,740	26.3%	89,500	339,788
Chairman							
Neil Carson	150,000	150,000					
Non-Executive Directors							
Michael Baunton	81,554	81,554					
Stephen King	100,000	100,000					
Jack Boyer	40,500	40,500					
Alison Wood	–	–					

There has been one change to shareholdings between 31 December 2017 and the date of this report. The 2014 LTIP award for Mark Hoad vested on 1 January 2018, this vesting increased his shareholding as a percentage of his 31 December 2017 salary from 26.3 per cent to 154.1 per cent.

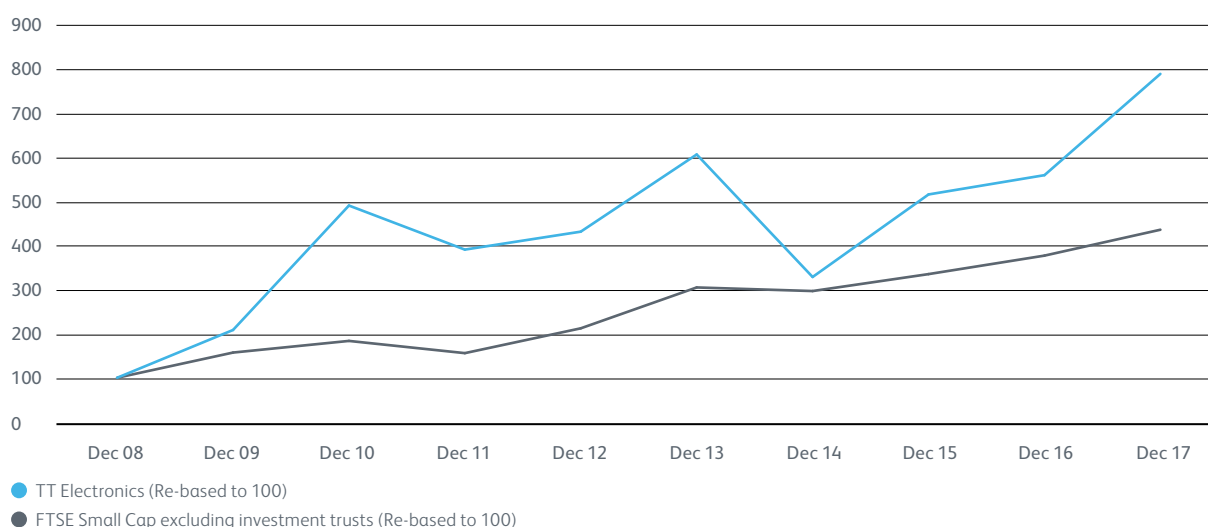
Directors' Annual Remuneration report continued

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.

The closing middle market prices for an Ordinary share of 25 pence of the Company on 30 December 2016 and 29 December 2017 as derived from the Stock Exchange Daily Official List were 163.0 pence and 223.75 pence respectively. During 2017, the middle market price of TT Electronics plc Ordinary shares ranged between 149.75 pence and 240.0 pence.

Performance graph and table

The following graph shows the cumulative Total Shareholder Return of the Company over the last nine 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.



Source: Thomson Reuters Datastream

The graph above shows the value, by 29 December 2017, 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 nine financial years are shown in the table below. The previous Chief Executive Officer was in this position until 30 June 2014 and was replaced by Richard Tyson from 1 July 2014. 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	2015	2016	2017
Total remuneration (£'000)	516	771	1,576	1,684	1,154	249	401	1,151	1,152	1,796
Short-term incentive (%)	30.0	96.0	96.0	50.0	53.0	0.0	25.0	90.8	100.0	100.0
LTIP vesting (%)	n/a	0.0	100.0	94.0	89.6	39.6	n/a	0.0	0.0	50.0

(1) Relates to previous Chief Executive Officer who was in position until 30 June 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 2016 and 31 December 2017, compared to that of the average for all UK employees of the Group.

	Salary	Benefits	Annual bonus
Chief Executive	2.5%	6.3%	2.5%
Average of UK employees	1.9% ¹	-1.7% ²	3.2%

(1) The average UK salary has decreased due to a change in the employee mix of 0.9% from indirect to direct headcount.

(2) The average UK 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.

	2016	2017	% change
Staff costs (£'m) ¹	105.1	114.0	8.5%
Dividends (£'m) ²	8.9	9.4	5.6%

(1) Staff costs are continuing operations. On a constant currency basis staff costs have increased by 5.2 per cent.

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

External appointments

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

Consideration by the Directors of matters relating to Directors' remuneration

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

Alison Wood (Remuneration Committee Chairman)
 Jack Boyer
 Michael Baunton
 Neil Carson

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

The Group CEO, CFO and EVP Human Resources attended meetings at the invitation of the Committee. No Committee members or attendees take part in any discussions relating to their own remuneration.

Directors' Annual Remuneration report continued

External advisers

In order to enable the Committee to make informed decisions on executive remuneration, the Committee retained independent external consultants, to advise on senior executive remuneration matters. Deloitte LLP (Deloitte) was appointed by the Committee in November 2016. Deloitte provided advice on the positioning of Non-executive, Executive and senior manager remuneration and the proposed adjustments to the performance conditions under the existing incentive arrangements during 2016. A separate part of Deloitte provided advice relating to divestment opportunities during 2017. Deloitte is a member of the Remuneration Consultants Group and has voluntarily signed up to its Code of Conduct.

The Committee takes into account the Remuneration Consultants Group's Code of Conduct when dealing with its advisers. 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.

The fees paid to Deloitte for providing advice in relation to executive remuneration over the financial year under review amounted to £34,290.

Shareholder voting at AGM

As shown by the approach to changes to the Remuneration Policy and the review of the performance targets from the portfolio development, the Committee continues to seek and encourages dialogue with shareholders. The Committee will endeavour to consult with major shareholders ahead of any significant changes to the Remuneration Policy.

At the Annual General Meeting held on 12 May 2017, the resolutions pertaining to the Directors' Remuneration report, Directors' Remuneration Policy and Amendments to the LTIP 2014 were passed on a show of hands. Proxy votes cast in respect of these resolutions were as follows:

Number of votes	For & Discretionary	For & Discretionary (%)	Against	Against (%)	Withheld	Withheld (%)	Total vote
Remuneration Report	122,930,072	97.28 %	3,435,961	2.72 %	20,895	0.02 %	126,386,928
Approval of the Remuneration Policy	125,506,296	99.35 %	821,753	0.65 %	58,879	0.05 %	126,386,928
Approval of the amendments to the LTIP 2014	121,480,424	96.15 %	4,868,927	3.85 %	37,577	0.03 %	126,386,928

A full schedule in respect of shareholder voting on the above and all resolutions at the 2017 AGM is available at www.ttelectronics.com.

The Remuneration report has been approved by the Board on 7 March 2018 and signed on its behalf by:



Alison Wood
Chairman, Remuneration Committee

Other statutory disclosures

Directors' report

This Annual Report and Accounts includes the Directors' report and the audited financial statements for the year ended 31 December 2017. Certain information required to be disclosed in the Directors' report is provided in other sections of this Annual Report. This includes the overview, the operating and financial reviews, the Corporate Governance and Remuneration reports and specific elements of the Financial statements noted below and, accordingly, these are incorporated into the Directors' report by reference.

Strategic report

Details of the Group's activities and future plans are set out in the Strategic report on pages 2 to 45 of this report. Subsidiary undertakings are listed on pages 141 to 142.

Results and dividends

The Group's profit on ordinary activities after taxation was £47.7 million (2016: £16.7 million). The audited financial statements of the Group and the Company are set out on pages 92 to 143. Further details of the Group's activities are set out in the Strategic report on pages 2 to 45.

The Directors are recommending a final dividend of 4.05 pence per share for the year ended 31 December 2017 (2016: 3.9 pence), to be paid on 18 May 2018 to shareholders on the register at 27 April 2018. This, together with the interim dividend of 1.75 pence per share paid on 19 October 2017 (2016: 1.7 pence), makes a total for the year of 5.8 pence (2016: 5.6 pence).

Acquisitions and disposals

On 13 March 2017, the Company acquired the assets of US based Cletronics, Inc., a manufacturer of electromagnetic components for aerospace, military and medical device markets, based in Medina, Ohio, USA. The purchase price was US\$1.54 million, subject to post-completion working capital price adjustments. The acquisition was conducted through a newly incorporated Group subsidiary, Cletronics NA, Inc.

On 19 July 2017, the Company announced it had entered into a conditional agreement for the sale of its Transportation Sensing and Control division to AVX Corporation, through its subsidiary AVX Limited, for a cash consideration of £118.8 million, on a cash-free, debt-free basis. The transaction involved the divestment of Group subsidiaries located in Germany, Austria, Romania, the UK, China, India and Mexico, which together comprised the Transportation division. The sale was conditional, amongst other things, upon anti-trust clearance, approval from the Company's shareholders in general meeting, and the amount of the intra-group debt owing from the Transportation division to the retained TT Electronics Group being no greater than €65 million. A Class 1 Circular, containing details of the proposed sale and a notice convening a general meeting, was sent to the Company's shareholders on 24 July 2017. Shareholder approval was obtained on 10 August 2017. Satisfaction of all outstanding conditions precedent and completion of the sale occurred on 2 October 2017. The total cash consideration received by the Company on completion of the transaction was £123.5 million, reflecting net debt and working capital adjustments for the period between exchange and completion.

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. It is intended that the transaction will be effected by means of a court-sanctioned scheme of arrangement between Stadium and the Stadium shareholders under Part 26 of the Companies Act 2006. Under the terms of the transaction, Stadium shareholders will be entitled to receive 120 pence in cash for each Stadium share, which values the entire issued share capital of Stadium at approximately £45.8 million. In addition, the Stadium board has declared a special dividend of 2.1 pence per Stadium share, which is conditional on completion of the transaction and in lieu of any final dividend for the financial year ended 31 December 2017. The transaction is subject to a number of conditions and further terms, including the approval of the scheme by the Stadium shareholders by the requisite majorities and the sanctioning of the scheme by the court. Further details of the transaction can be found in the Rule 2.7 announcement released on 15 February 2018. The scheme document, containing further information about the transaction, and notices of the court meeting and the Stadium general meeting, will be published within 28 days of the date of the Rule 2.7 announcement.

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 56.

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

Auditor

KPMG LLP (KPMG, previously KPMG Audit Plc) 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 90 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 10 May 2018 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD at 11.30 am. The Notice of the Company's Annual General Meeting accompanies this document.

Research and development

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

Significant agreements relating to change of control

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

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

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 44 to 45.

Political contributions

The Group made no political contributions during the year.

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 23 to the consolidated financial statements. The rights and obligations attaching to the Company's Ordinary shares are set out in the Company's Articles of Association, a copy of which can be obtained from Companies House in the United Kingdom or by writing to the Group General Counsel & Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may 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.

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 5 March 2018 and 31 December 2017.

	5 March 2018		31 December 2017	
	Number	%	Number	%
Aberforth Partners LLP	19,504,510	12.0	21,065,391	13.0
FIL Limited (Fidelity International)	15,373,528	9.5	15,373,528	9.5
NN Group N.V.	8,387,718	5.2	8,387,718	5.2
JO Hambro Capital Management	8,218,564	5.1	8,218,564	5.1
Tameside MBC re: Greater Manchester Police	8,108,219	5.1	8,108,219	5.1
Schroders plc	7,931,600	4.9	7,931,600	4.9
Tweedy, Browne Company LLC	7,664,336	4.9	7,664,336	4.9
Aberdeen Asset Managers Limited	7,835,077	4.8	7,835,077	4.8

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.

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 10 May 2018. During 2017, 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 12 May 2017, the Company was given authority to purchase up to 16,234,082 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 2017, the trustee held 2,762,458 shares with a nominal value of £690,614.50 and an aggregate purchase price of £2.24 per share, representing 1.696 per cent of the total issued share capital at that date. These shares will be used to satisfy awards made under the TT Electronics plc Restricted Share Plan ("RSP"), the TT Electronics plc Long-Term Incentive Plan ("LTIP") or other employee share schemes. The maximum number of shares held by the EBT during the year was 2,762,458, of which 193,988 shares were used to satisfy a share award for Mark Hoad in January 2018. Details of this award are shown on page 48 of the 2014 Annual Report and Accounts. The voting rights in relation to these shares are exercisable by the trustee. However, in accordance with investor protection guidelines, the trustee abstains from voting. A dividend waiver is in place under which the trustee waived its right to receive dividends on the shares it held during the year, and any

future dividends. The Executive Directors, as employees of the Company, are potential beneficiaries of shares held by the EBT.

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.

Other statutory disclosures continued

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.

UK Corporate Governance Code

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

Disclosure of information to 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.

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

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

Listing Rule	Description	Location
9.8.4(13)	Current and future dividend waiver	Page 83. Shares held by the Employee Benefit Trust

Approved by the Board on 7 March 2018 and signed on its behalf by:



Lynton Boardman
Group General Counsel & Company Secretary

Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

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

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

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant and reliable
- state whether they have been prepared in accordance with IFRSs as adopted by the EU
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- 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

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
7 March 2018

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 plc ("the Company") for the year ended 31 December 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related notes, including the accounting policies in note 2.

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 2017 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 (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; 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 appointed as auditor by the directors on 1 July 2010. The period of total uninterrupted engagement is for the 7 financial years ended 31 December 2017. 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.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, 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 (unchanged from 2016), in decreasing order of audit significance, 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 presentation of 'underlying' operating profit from continuing operations (£24.3 million, 2016: £20.6 million)

Risk versus 2016 

Refer to page 58 (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 2017 this mainly related to restructuring of the Group's operations, amortisation of acquired intangibles as well as certain credit items that were non-recurring in nature. 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:

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 2017 and on the basis of our understanding of the results gained throughout the audit process;

Assessing balance – Evaluating the extent to which the relative prominence given to underlying financial information, related commentary and adopted IFRS financial information could be misleading and whether the underlying financial information is otherwise 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 (2016: acceptable).

Warranty and other product provisions (included within provisions of £7.3 million, 2016: £7.5 million).

Risk versus 2016 

Refer to page 59 (Audit Committee section of the Directors' Report and Notes 1h, 2u and 19 (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, which could be material to the financial statements, requires judgement and involves making estimates and assumptions.

Our response:

Our procedures included:

- **Correspondence** – Corresponding with the Group's internal legal counsel and discussions with the Group's and business units' management to identify actual and potential customer claims;
- **Test of details** – Considering relevant available information used by the Directors to assess the validity of claims and challenging the basis of the estimates using our understanding of the status of ongoing claims and disputes gained throughout the audit process;
- **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** – Assessing whether the Group's disclosures in respect of these provisions and the movements in the year are appropriate.

Our results:

We considered the warranty and other product provisions recognised to be acceptable (2016: acceptable).

Tax provisioning (included within income tax payable of £19.0 million, 2016: £9.7 million).

Risk versus 2016 

Refer to page 59 (Audit Committee section of the Directors' Report and Notes 1h, 2t and 9 (accounting policy and financial disclosures)).

The risk – Dispute outcome

Accruals 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.

Our response:

Our procedures included:

- **Our tax expertise** – Use of our own international and local tax specialists to assess the Group's tax positions, inspect its correspondence with the relevant tax authorities and analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts;

- **Assessing transparency** – Assessing the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

Our results:

We found the level of tax provisioning to be acceptable (2016: acceptable).

Carrying value of goodwill (£100.3 million, 2016: £106.5 million).

Risk versus 2016 

Refer to page 60 (Audit Committee section of the Directors' Report and Notes 1h, 2k and 14 (accounting policy and financial disclosures)).

The risk – Forecast-based valuation

The Group has generated significant goodwill on acquisitions whose recoverability is dependent on the ability of the businesses to which it relates to generate sufficient future economic benefits. Historically there has been an associated significant risk over the recoverability of goodwill due to past underperformance in certain operations due to various wider economic factors. There is a risk that further reductions in profitability due to competitive forces or a decline in customer demand for products using components supplied by the Group may result in an impairment or further impairment.

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

The overall risk rating has reduced in the year as a result of improved current year performance and future outlook of the cash generating units that have historically had minimal headroom.

Our response:

Our procedures included:

- **Our sector experience** – Challenging the Group's assumptions by evaluating the likely achievability of the growth forecasts used in the cash flow models;
- **Historical comparisons** – Evaluating the track record of historical forecasts compared to actual results achieved;
- **Benchmarking assumptions** – Comparing the Group's assumptions to externally derived data in relation to key inputs such as projected economic growth and (using our valuation specialists) discount rates;
- **Sensitivity analysis** – Performing breakeven analysis on the discount rate, revenue and total pre-tax cash flow assumptions;
- **Comparing valuations** – Comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cashflows;
- **Assessing transparency** – Assessing the adequacy of the Group's disclosures in respect of goodwill.

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

continued

Our results:

We found the resulting estimate of the recoverable amount of goodwill to be acceptable (2016: acceptable).

Recoverability of parent company's investment in and amounts due from subsidiaries (investment in subsidiaries – £164.6 million, 2016: £96.5 million. Amounts owed by subsidiary undertakings - £106.3 million, 2016: £126.8 million)

Risk versus 2016 ↔

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 54.0% (2016: 39.8%) and 34.9% (2016: 52.3%) 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 a sample of the highest value amounts owed by subsidiary undertakings representing 94% of the total amounts due from subsidiaries, 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 (2016: acceptable).

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 at the planning stage of the audit (2016: £1.2 million). Following the sale of the TS&C business materiality was reviewed but no change was considered necessary. The reconsideration had regard to the levels of component materiality being used and normalised profit before tax from continuing operations of £20.3 million and normalised Group profit before tax (which includes discontinued operations) of £33.0 million of which it represents 5.9% and 3.6% respectively. Profit before tax from continuing operations was normalised to exclude restructuring and other costs of £2.6 million and Group profit before tax was additionally normalised to exclude the gain arising on disposal of the TS&C business. 2016 materiality of £1.2 million represented 4.7% of Group profit before tax normalised on a consistent basis.

Materiality for the parent company financial statements as a whole was set at £1.2 million (2016: £1.2 million), determined with reference to a benchmark of company total assets, of which it represents 0.4% (2016: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.06 million (2016: £0.06 million) for items impacting the income statement and £0.12 million (2016: £0.06 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 98 (2016: 95) reporting components, we subjected 42 (2016: 47) to full scope audits for Group purposes and 6 (2016: 7) 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.

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

Continuing

2017 (2016)	Number of components	Group revenue of continuing operations	Group profit before tax of continuing operations	Total assets
Audits for Group reporting purposes	42 (40)	77% (72%)	78% (70%)	84% (87%)
Specified risk focused audit procedures on significant working capital balances, non-current assets, revenue, cost of sales and administrative expenses.	4 (4)	8% (8%)	7% (12%)	4% (3%)
Total	46 (44)	85% (88%)	85% (82%)	88% (90%)

2016: restated to reflect discontinued operations

The remaining 15% (2016: 12%) of Group revenue from continuing operations, 15% (2016: 18%) of Group profit before tax from continuing operations and 7% (2016: 10%) of total Group assets is represented by 41 (2016: 37) reporting components, none of which individually represented more than 9% 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.

Discontinuing

2017 (2016)	Number of components	Group revenue of discontinued operations	Group profit before tax of discontinued operations
Audits for Group reporting purposes	0 (7)	0 (98%)	0 (63%)
Specified risk focused audit procedures on significant working capital balances, non-current assets, revenue, cost of sales and administrative expenses.	2 (3)	66% (1%)	34% (29%)
Total	2 (10)	66% (99%)	34% (92%)

The remaining 44% (2016: 1%) of Group revenue from discontinued operations and 66% (2016: 8%) of Group profit before tax from discontinued operations is represented by 9 (2016: 4) reporting components, none of which individually represented more than 21% of any of Group revenue from discontinued operations and Group profit before tax from discontinued operations. 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.

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 £1.2 million, having regard to the mix of size and risk profile of the Group across the components. The work on 27 of the 48 components (2016: 36 of the 54 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 3 (2016: 4) component locations in the UK, USA and Mexico (2016: USA, Mexico, China and the UK) to assess the audit risk and strategy. Telephone conference meetings were also held with the significant component auditors. 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

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 Group and 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 on page 54 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

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

continued

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 27 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.

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 85, 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 sector experience, through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of health and safety, anti-bribery and employment law recognising the nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management.

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, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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
7 March 2018

Consolidated income statement

for the year ended 31 December 2017

£million (unless otherwise stated)	Note	2017	2016 ⁽¹⁾
Revenue	3a	360.0	332.7
Cost of sales		(267.2)	(248.8)
Gross profit		92.8	83.9
Distribution costs		(22.7)	(23.2)
Administrative expenses		(50.8)	(43.0)
Other operating income		0.7	1.1
Operating profit		20.0	18.8
Analysed as:			
Underlying operating profit	3a	24.3	20.6
Restructuring and other	8	(1.6)	2.0
Acquisition and disposal related costs	8	(2.7)	(3.8)
Finance income	6	0.1	0.1
Finance costs	6	(2.4)	(4.6)
Profit before taxation		17.7	14.3
Taxation	9	(2.0)	(2.4)
Profit from continuing operations		15.7	11.9
Discontinued operations			
Profit from discontinued operations	5	32.0	4.8
Profit for the period attributable to the owners of the Company		47.7	16.7
EPS attributable to owners of the Company (p)			
Basic			
Continuing operations	11	9.7	7.3
Discontinued operations	11	19.8	3.0
		29.5	10.3
Diluted			
From continuing operations	11	9.5	7.3
From discontinued operations	11	19.3	3.0
		28.8	10.3

(1) Re-presented for discontinued operations.

Consolidated statement of comprehensive income

for the year ended 31 December 2017

£million	Note	2017	2016
Profit for the year		47.7	16.7
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		(9.3)	19.4
Gain on hedge of net investment in foreign operations		1.5	7.3
Gain/(loss) on cash flow hedges taken to equity less amounts taken to income statement		2.1	(0.5)
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	22	10.3	11.3
Remeasurement of other post-employment benefits		0.1	(0.2)
Tax on remeasurement of defined benefit pension schemes	9	(2.2)	(2.1)
Total comprehensive income for the year attributable to the owners of the Company		45.1	51.9

Consolidated statement of financial position

at 31 December 2017

£million	Note	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	13	41.8	92.2
Goodwill	14	100.3	106.5
Other intangible assets	15	27.3	36.7
Deferred tax assets	9	5.6	6.4
Pensions	22	15.1	–
Total non-current assets		190.1	241.8
Current assets			
Inventories	16	59.1	79.6
Trade and other receivables	17	66.0	96.8
Income taxes receivable		1.3	0.8
Derivative financial instruments		1.6	0.6
Cash and cash equivalents		46.5	49.8
Total current assets		174.5	227.6
Total assets		364.6	469.4
LIABILITIES			
Current liabilities			
Borrowings	20	0.3	1.6
Derivative financial instruments		0.6	2.4
Trade and other payables	18	63.0	94.8
Income taxes payable		19.0	9.7
Provisions	19	7.3	7.5
Total current liabilities		90.2	116.0
Non-current liabilities			
Borrowings	20	0.3	103.6
Deferred tax liability	9	2.0	6.1
Pensions	22	3.2	5.7
Other non-current liabilities	18	0.1	4.6
Total non-current liabilities		5.6	120.0
Total liabilities		95.8	236.0
Net assets		268.8	233.4
EQUITY			
Share capital	23	40.7	40.6
Share premium	23	2.9	2.1
Other reserves		8.4	9.6
Hedging and translation reserve		33.5	44.3
Retained earnings		181.3	134.8
Equity attributable to owners of the Company		266.8	231.4
Non-controlling interests		2.0	2.0
Total equity		268.8	233.4

Approved by the Board of Directors on 7 March 2018 and signed on their behalf by:



Richard Tyson
Director



Mark Hoad
Director

Consolidated statement of changes in equity

for the year ended 31 December 2017

£million	Share capital	Share premium	Hedging and translation reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interest	Total
At 1 January 2016	40.5	1.8	18.1	7.0	118.0	185.4	2.0	187.4
Profit for the period	–	–	–	–	16.7	16.7	–	16.7
Other comprehensive income								
Exchange differences on translation of foreign operations	–	–	19.4	–	–	19.4	–	19.4
Gain on hedge of net investment in foreign operations	–	–	7.3	–	–	7.3	–	7.3
Loss on cash flow hedges taken to equity less amounts taken to income statement	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Remeasurement of defined benefit pension schemes	–	–	–	–	11.3	11.3	–	11.3
Remeasurement of other post-employment benefits	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Tax on remeasurement of defined benefit pension schemes	–	–	–	–	(2.1)	(2.1)	–	(2.1)
Total other comprehensive income	–	–	26.2	–	9.0	35.2	–	35.2
Transactions with owners recorded directly in equity								
Equity dividends paid by the Company	–	–	–	–	(8.9)	(8.9)	–	(8.9)
Share-based payments	–	–	–	2.4	–	2.4	–	2.4
Deferred tax on share-based payments	–	–	–	0.2	–	0.2	–	0.2
New shares issued	0.1	0.3	–	–	–	0.4	–	0.4
At 1 January 2017	40.6	2.1	44.3	9.6	134.8	231.4	2.0	233.4
Profit for the year	–	–	–	–	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
Gain 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 31 December 2017	40.7	2.9	33.5	8.4	181.3	266.8	2.0	268.8

Consolidated cash flow statement

for the year ended 31 December 2017

£million	Note	2017	2016 ⁽¹⁾
Cash flows from operating activities			
Profit for the year		47.7	16.7
Taxation		2.0	2.4
Net finance costs		2.3	4.5
Restructuring		1.6	(2.0)
Acquisition related costs		2.7	3.8
Profit from discontinued operations		(32.0)	(4.8)
Underlying operating profit		24.3	20.6
Adjustments for:			
Depreciation of property, plant and equipment	13	9.0	8.7
Amortisation of intangible assets	15	3.8	3.5
Other items		3.4	1.9
(Increase)/decrease in inventories		(7.4)	5.8
Decrease/(increase) in receivables		3.0	(10.2)
Increase/(decrease) in payables		2.5	(1.0)
Underlying operating cash flow		38.6	29.3
Operating cash flow from discontinued operations	5	5.9	20.3
Special payments to pension funds		(4.7)	(4.5)
Restructuring, acquisition and disposal related costs		(4.9)	(10.8)
Net cash generated from operations		34.9	34.3
Net income taxes paid		(5.6)	(7.7)
Net cash flow from operating activities		29.3	26.6
Cash flows from investing activities			
Interest received		0.1	0.1
Purchase of property, plant and equipment	13	(11.4)	(8.8)
Proceeds from sale of property, plant and equipment and grants received		1.6	11.9
Development expenditure	15	(1.6)	(0.8)
Purchase of other intangibles	15	(2.1)	(3.8)
Investing cash flow from discontinued operations	5	(9.2)	(8.4)
Acquisitions of businesses		(1.2)	–
Disposal of subsidiaries	5	116.1	–
Cash with disposed businesses		(2.4)	–
Net cash flow from investing activities		89.9	(9.8)
Cash flows from financing activities			
Issue of share capital	23	0.9	0.3
Interest paid		(2.0)	(3.0)
Repayment of borrowings		(119.1)	(113.7)
Proceeds from borrowings		13.9	114.6
Other items		(6.3)	(0.3)
Finance leases		(0.3)	(0.3)
Dividends paid by the Company	10	(9.1)	(8.9)
Net cash flow from financing activities		(122.0)	(11.3)
Net (decrease)/increase in cash and cash equivalents		(2.8)	5.5
Cash and cash equivalents at beginning of year	25	49.8	40.3
Exchange differences	25	(0.5)	4.0
Cash and cash equivalents at end of year	25	46.5	49.8
Cash and cash equivalents comprise:			
Cash at bank and in hand		46.5	49.8

(1) Re-presented to show profit, operating cash flow and investing cash flow from discontinued operations separately.

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 92 to 134 have been prepared using consistent accounting policies.

Adoption of new and amendments to published standards and interpretations effective for the Group for the year ended 31 December 2017 did not have any impact on the financial position or performance of the Group.

In accordance with IFRS 5 Non-current assets held for sale and discontinued operations, comparative information for the year ended 31 December 2016 has been re-presented for businesses treated as discontinued. During the year ended 31 December 2017, the Transportation division has been re-presented as a discontinued operation (see note 5).

b) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2017 and the Group's financial performance for the year ended 31 December 2017.

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

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

c) 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.

The Directors consider there to be four main alternative performance measures: underlying operating profit, free cash flow, underlying EPS and underlying effective tax rate.

d) Underlying operating profit

This has been defined as operating profit from continuing operations excluding the impacts of significant restructuring programmes, significant one-off asset impairments and business acquisition and divestment related activity. Business acquisition and divestment related items include the amortisation of intangible assets recognised on acquisition, the writing off of the pre-acquisition profit element of inventory written up on acquisition, other direct costs associated with business combinations and adjustments to contingent consideration related to acquired businesses. Items related to significant restructuring programmes include the impact of the Operational Improvement Plan initiated in 2014, other significant changes in footprint (including movement of production facilities and sale of properties) and significant costs of management changes.

Other alternative performance measures are defined in note 8.

1 Basis of preparation continued

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 2 to 45. The Strategic report analyses the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group had net funds of £47.0 million at 31 December 2017 (2016: £55.4 million net debt), with available undrawn committed and uncommitted facilities of £204.2 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 12 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 54.

f) New standards and interpretations not yet adopted

The Group continues to assess the impact of IFRS 15 Revenue from contracts with customers and the revised issuance of IFRS 9 Financial instruments which will be effective for periods beginning 1 January 2018. The Group does not expect a material impact from the adoption of IFRS9. The Group continues to assess the impact of IFRS 16 Leases which will be effective for periods beginning 1 January 2019.

There were no revisions to adopted IFRSs which have become applicable in 2017 that have had a significant impact on the Group's financial statements. Standards and interpretations issued by the IASB are only applicable if endorsed by the EU. The following will be applicable in the future and will have an impact on the Group:

IFRS 15 – Revenue from Contracts with Customers: 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.

Had IFRS 15 been adopted during the year ended 31 December 2017, continuing revenue would have increased by between £0.5 million and £2.0 million and continuing operating profit would have increased by up to £0.3 million. Similarly, discontinued revenue would have increased by between £4.0 million and £6.0 million and discontinued operating profit would have increased by up to £0.5 million. Group net assets would have decreased by between £nil and £2.0 million.

g) Change in accounting policies

There have been no changes to accounting policies during the year. Adoption of new and amendments to published standards and interpretations effective for the Group for the year ended 31 December 2017 did not have any impact on the financial position or performance of the Group.

h) Significant accounting judgements and estimates

Judgements

Determining many of the amounts included in the consolidated financial statements involves the use of judgements. These judgements are based on management's best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. 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.

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 reverse as the statute of limitations is reached or tax audits occur in the respective countries concerned. All such provisions are included in current liabilities. The recognition of deferred tax assets is dependent on assessments of future taxable income in the relevant countries concerned
- Note 13 – Property, plant and equipment. Where indicators of impairment exist the carrying amount of property, plant and equipment has been tested by comparing the value in use to the net book value of the asset.
- Note 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 15 – Other intangible assets. The recoverability of capitalised development costs is dependent on assessments of the future commercial viability of the relevant products and processes;
- Note 19 – Provisions. The Group makes appropriate provision on a consistent basis for risks of product liability, litigation, restructuring, credit risk and other normal trading exposures with estimates being made regarding the timing of future payments; and
- Note 22 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions, including future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate. Note 22 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 significant risks and rewards of ownership have transferred to the customer. In most cases this coincides with the transfer of legal title of the goods. Revenue for services is recognised as the services are rendered.

b) Finance income

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

c) Finance costs

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

d) Discontinued operations 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.

2 Summary of significant accounting policies continued

e) Dividends

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

f) Business combinations

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

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

g) Property, plant and equipment

Initial measurement

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

Depreciation

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

The depreciation rates of assets are as follows

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

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

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.

2 Summary of significant accounting policies continued

j) Government grants

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

k) Goodwill

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

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

l) Other intangible assets

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

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

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

The amortisation rates for intangible assets are:

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

Amortisation is charged on a straight-line basis.

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.

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.

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.

2 Summary of significant accounting policies continued

Short-term employee benefits

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

Share-based payments

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

w) Own shares

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

x) Foreign currency translation

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

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

3 Segmental reporting

Following the announcement on 1 August 2017, the Group is now organised into three divisions, as shown below, according to the nature of the products and services provided. Each of these divisions represents an operating segment in accordance with IFRS 8 Operating segments and there is no aggregation of segments. The chief operating decision maker is the Board of Directors. The operating segments are:

- **Sensors and Specialist Components** – The Sensors and Specialist Components division collaborates with customers to develop both standard and custom solutions that improve the precision, speed and reliability of performance-critical applications in the industrial, medical, transportation and aerospace and defence sectors. We design and manufacture highly engineered parts that solve customer challenges. Product offerings include optoelectronics and sensors for torque, position, pressure, flow and temperature, and specialist circuit protection and circuit conditioning components;
- **Power Electronics** – The Power Electronics division creates specialist, high performance, ultra-reliable, highly engineered electronic components and sub-assemblies for power management, signal conditioning and connectivity applications in harsh environments. It serves customers in the industrial, automotive and aerospace and defence markets and focuses on creating value by developing innovative electronic solutions to challenging problems for our customers' electronic systems; and
- **Global Manufacturing Solutions** – The Global Manufacturing Solutions division draws on its manufacturing design engineering capabilities, global facilities and world-class quality standards to provide highly complex electronic manufacturing solutions to customers in the aerospace and defence, medical, and high technology industrial sectors. The business has broad capabilities ranging from printed circuit board assembly to environmental test and full systems integration. This global suite of end-to-end solutions is focused exclusively on low volume, high mix business.

3 Segmental reporting continued

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 - in 2016 and prior years central corporate costs were allocated to each of the divisions on the basis of revenue to determine underlying operating profit. For 2017 reporting those costs of the head office which are not related to the operating activities of the trading units are no longer allocated to divisions. Resources and costs managed centrally but deployed in support of the operating units will continue to be allocated to the divisional segments based on a combination of revenue and operating profit. Corporate costs are separately disclosed, equivalent to the segment disclosure information, so that reporting is consistent with the format that is now used for review by the chief operating decision maker. This gives greater transparency of the underlying operating profits for each segment. As required by IFRS 8, comparative amounts have been restated to reflect this change.

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

£million	Sensors and Specialist Components	Power Electronics	Global Manufacturing Solutions	Total operating segments	Corporate	Total
Sales to external customers	142.3	64.2	153.5	360.0	–	360.0
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
						2016 (re-presented)
£million	Sensors and Specialist Components	Power Electronics	Global Manufacturing Solutions	Total operating segments	Corporate	Total
Sales to external customers	129.5	56.2	147.0	332.7	–	332.7
Underlying operating profit	15.6	5.0	6.3	26.9	(6.3)	20.6
Adjustments to underlying operating profit (note 8)						(1.8)
Operating profit						18.8
Net finance costs						(4.5)
Profit before taxation						14.3

There are no significant sales between segments.

Notes to the consolidated financial statements continued

3 Segmental reporting continued

b) Segment assets and liabilities

£million	Assets		Liabilities	
	2017	2016 (re-presented)	2017	2016 (re-presented)
Sensors and Specialist Components	116.2	127.3	19.3	23.0
Power Electronics	76.1	71.2	10.8	11.3
Global Manufacturing Solutions	89.7	82.9	28.2	26.6
Segment assets and liabilities	282.0	281.4	58.3	60.9
Discontinued operations	–	115.4	–	39.6
Pensions and other post-employment benefits	15.1	–	3.2	5.7
Unallocated assets and liabilities	67.5	72.6	34.3	129.8
Total assets/liabilities	364.6	469.4	95.8	236.0

£million	Capital expenditure		Depreciation and amortisation	
	2017	2016 (re-presented)	2017	2016 (re-presented)
Sensors and Specialist Components	8.4	8.1	6.9	6.3
Power Electronics	2.6	2.3	2.3	2.4
Global Manufacturing Solutions	3.4	5.2	3.6	3.5
Total	14.4	15.6	12.8	12.2

Unallocated assets of £67.5 million (2016: £72.6 million) include deferred tax of £5.6 million (2016: £6.4 million), cash of £46.5 million (2016: £49.8 million), income tax of £1.3 million (2016: £0.8 million) and assets associated with the central corporate function of £14.1 million (2016: £15.6 million).

Unallocated liabilities of £34.3 million (2016: £129.8 million) include borrowings of £0.6 million (2016: £105.2 million), deferred tax of £2.0 million (2016: £6.1 million), income tax of £19.0 million (2016: £9.7 million) and liabilities associated with the central corporate function of £12.7 million (2016: £8.8 million).

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	2017	2016 (re-presented)
United Kingdom	96.5	94.6
Rest of Europe	63.7	60.5
North America	110.2	98.1
Central and South America	0.8	0.5
Asia	85.8	74.5
Rest of the World	3.0	4.5
Total continuing operations	360.0	332.7

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.

3 Segmental reporting continued

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	2017	2016
United Kingdom	73.9	77.2
Rest of Europe	0.2	45.3
North America	79.4	89.0
Central and South America	7.2	8.8
Asia	8.7	15.1
	169.4	235.4

4 Acquisitions

During the period, the Group acquired the assets of Cletronics Inc., a small US based manufacturer of electromagnetic components for the aerospace industry for £1.2 million. Net assets acquired were £0.8m and goodwill recognised was £0.4m.

5 Discontinued operations

On 2 October 2017, the Group disposed of the Transportation 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 the year 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	2017	2016 (re-presented)
Revenue	201.1	237.2
Cost of sales	(175.7)	(212.8)
Gross profit	25.4	24.4
Distribution costs	(6.8)	(8.8)
Administrative expenses	(6.2)	(6.8)
Operating profit	12.4	8.8
Analysed as:		
Underlying operating profit	12.6	10.7
Restructuring	(0.2)	(1.9)
Finance income	0.1	0.1
Profit on disposal of discontinued operations	26.3	–
Profit before taxation	38.8	8.9
Taxation	(6.8)	(4.1)
Profit from discontinued operations	32.0	4.8

The profit on disposal of discontinued operations is analysed below:

£million	2017	2016
Gross cash received	123.8	–
Less: legal and professional costs	(7.7)	–
Net proceeds per consolidated cash flow statement	116.1	–
Deferred consideration receivable	1.8	–
Less: provision for costs	(1.5)	–
Less: net assets at completion	(91.8)	–
Less: write off of capitalised software costs relating to the disposed business	(3.4)	–
Add: foreign exchange gain on disposals	5.1	–
	26.3	–

Notes to the consolidated financial statements continued

5 Discontinued operations continued

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

£million	2017	2016 (re-presented)
Operating activities	5.9	20.3
Investing activities	(9.2)	(8.4)
Financing activities	(1.7)	–
Disposal of subsidiaries	116.1	–
Cash with disposed businesses	(2.4)	–
Net cash flow	108.7	11.9

6 Finance costs and finance income

£million	2017	2016 (re-presented)
Finance income	0.1	0.1
Interest expense	2.0	2.9
Foreign exchange losses	–	0.3
Net interest on employee obligations	0.1	0.7
Amortisation of arrangement fees	0.3	0.7
Finance costs	2.4	4.6
Net finance costs	2.3	4.5

7 Profit for the year

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

£million	2017	2016 (re-presented)
Depreciation of property, plant and equipment	9.0	8.7
Amortisation of intangible assets ¹	6.1	7.0
Net foreign exchange gains	0.3	0.2
Cost of inventories recognised as an expense	267.2	248.8
Research and development	8.7	8.7
Staff costs (see note 12)	114.0	104.6
Restructuring (excluded from underlying operating profit)	3.7	2.3
Impairment of property, plant and equipment and intangibles ²	0.7	1.0
Remuneration of Group Auditors:		
– audit of these financial statements	0.4	0.3
– audit of financial statements of subsidiaries of the Company	0.4	0.6
– taxation compliance services	–	0.1
– other advisory services ³	0.2	0.2
Government grants credited	0.2	0.3
Share-based payments	4.1	2.7
Profit on disposal of property, plant and equipment (excluded from underlying operating profit)	0.2	4.3

(1) Included within amortisation of intangible assets is £2.3 million (2016: £3.5 million) reported within items excluded from underlying operating profit.

(2) Impairment of property, plant and equipment and intangibles relates to a £0.7 million write down arising on a planned site closure (2016: £1.0 million vacant property write downs) reported within items excluded from underlying operating profit.

(3) Other advisory services of £0.2 million includes work as reporting accountant in relation to the disposal of the Transportation division, assistance relating to historical tax issues and UK grant claim reviews (2016: £0.2 million accounting standard conversion assistance and review of IT systems).

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.

The Directors consider there to be four main alternative performance measures: underlying operating profit, free cash flow, underlying EPS (see note 11) and underlying effective tax rate. 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 and business acquisition and divestment related activity. Business acquisition and divestment related items include the amortisation of intangible assets recognised on acquisition, the writing off of the pre-acquisition profit element of inventory written up on acquisition, other direct costs associated with business combinations and adjustments to contingent consideration related to acquired businesses. Items related to significant restructuring programmes include the impact of the Operational Improvement Plan initiated in 2014, other significant changes in footprint (including movement of production facilities and sale of properties) and significant costs of management changes.

£million	2017		2016 (re-presented)	
	Operating profit	Tax	Operating profit	Tax
As reported	20.0	(2.0)	18.8	(2.4)
Restructuring and other				
Restructuring	(3.7)	0.4	(2.3)	0.8
Property items	0.2	–	4.3	(0.7)
Pensions increase exchange past service credit	1.9	(0.4)	–	–
Impact of US tax reform legislation	–	1.8	–	–
	(1.6)	1.8	2.0	0.1
Acquisition and disposal related costs				
Release of divestment provision	–	–	0.9	–
Amortisation of intangible assets arising on business combinations	(2.3)	0.5	(3.5)	0.7
Other acquisition and disposal related costs	(0.4)	0.1	(1.2)	0.2
	(2.7)	0.6	(3.8)	0.9
Total items excluded from underlying measure	(4.3)	2.4	(1.8)	1.0
Underlying measure	24.3	(4.4)	20.6	(3.4)

Restructuring £1.6 million (2016: £2.0 million credit)

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.

In the year ended 31 December 2016, restructuring costs related to further costs incurred on the Operational Improvement Plan initiated in a previous year, costs associated with other site restructuring (net of a release for certain sites) and a credit of £4.3 million arising on sale of properties (net of a write down of certain properties).

Notes to the consolidated financial statements continued

8 Alternative performance measures continued

Acquisition and disposal related costs £2.7 million (2016: £3.8 million)

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

In the year ended 31 December 2016, acquisition and disposal related costs amounted to £3.8 million which included a credit of £0.9 million relating to the release of a provision established for warranty liabilities arising from a divestment that are no longer required, £3.5 million amortisation of acquisition intangibles and £1.2 million of other costs, relating primarily to the integration of Aero Stanrew.

Free cash flow

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

£million	2017	2016
Net cash flow from operating activities	29.3	26.6
Net cash flow from investing activities	89.9	(9.8)
Less:		
Acquisition of business	1.2	–
Disposal of subsidiaries	(116.1)	–
Cash with disposed businesses	2.4	–
Interest paid	(2.0)	(3.0)
Free cash flow	4.7	13.8

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. See note 10 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	2017	2016 (re-presented)
Underlying profit	24.3	20.6
Net interest	(2.3)	(4.5)
Underlying profit before tax	22.0	16.1
Underlying tax	4.4	3.4
Underlying effective tax rate	20.0%	21.1%

9 Taxation

a) Analysis of the tax charge for the year

£million	2017	2016 (re-presented)
Current tax		
Current income tax charge	7.4	2.3
Adjustments in respect of current income tax of previous year	0.5	1.1
Total current tax charge	7.9	3.4
Deferred tax		
Relating to origination and reversal of temporary differences	(1.6)	0.7
Change in tax rate	(1.7)	–
Recognition of previously unrecognised deferred tax assets ¹	(2.6)	(1.7)
Total deferred tax credit	(5.9)	(1.0)
Total tax charge in the income statement – continuing operations	2.0	2.4

(1) Recognition of previously unrecognised deferred tax assets due to improved profitability in the UK.

9 Taxation continued

UK tax is calculated at 19.25% (2016: 20.0%) 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 11.3% (the underlying tax rate was 20.0%) (see note 8).

Included within the total tax charge above is a £2.4 million credit relating to items reported outside underlying profit (2016: £1.0 million).

b) Reconciliation of the total tax charge for the year

£million	2017	2016 (re-presented)
Profit before tax from continuing operations	17.7	14.3
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20.0%)	3.4	2.9
Effects of:		
Impact on deferred tax arising from changes in tax rates	(1.7)	–
Overseas tax rate differences	0.8	1.5
Items not deductible for tax purposes or income not taxable	2.0	(1.0)
Adjustment to current tax in respect of prior periods	0.5	1.1
Recognition of previously unrecognised deferred tax assets ¹	(2.6)	(1.7)
Recognition and utilisation of tax losses and other items not previously recognised	(0.5)	(0.6)
Current year tax losses and other items not recognised	0.1	0.2
Total tax charge reported in the income statement	2.0	2.4

(1) Recognition of previously unrecognised deferred tax assets due to improved profitability in the UK.

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.

c) Deferred tax

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

£million	2017	2016
Deferred tax assets	5.6	6.4
Deferred tax liabilities	(2.0)	(6.1)
Net deferred tax asset	3.6	0.3

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

£million	As at 1 January 2017	Continuing operations	Discontinued 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

Notes to the consolidated financial statements continued

9 Taxation continued

£million	As at 1 January 2016	Continuing operations ¹	Discontinued operations ¹	Disposal of subsidiaries	Recognised in equity/OCI	Net exchange translation	As at 31 December 2016
Intangible assets	(9.8)	1.0	–	–	–	(1.1)	(9.9)
Property, plant and equipment	(1.5)	1.0	0.2	–	–	(0.5)	(0.8)
Deferred development costs	(1.5)	–	0.1	–	–	(0.3)	(1.7)
Retirement benefit obligations	4.2	(0.7)	0.1	–	(2.1)	0.2	1.7
Inventories	2.3	(0.5)	(0.1)	–	–	0.3	2.0
Provisions	5.3	(1.6)	0.1	–	–	0.6	4.4
Tax losses	1.4	0.2	–	–	–	0.3	1.9
Unremitted overseas earnings	(1.3)	(0.3)	–	–	–	–	(1.6)
Share-based payments	0.2	0.3	–	–	0.2	–	0.7
Short-term timing differences	1.3	1.6	0.3	–	–	0.4	3.6
Deferred tax asset/(liability)	0.6	1.0	0.7	–	(1.9)	(0.1)	0.3

(1) Re-presented for discontinued operations.

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 2016, the gross amount and expiry date of losses available for carry forward are as follows:

£million	Expiring within 5 years	Expiring within 6–10 years	Unlimited	Total
Losses for which a deferred tax asset has been recognised	1.2	–	2.7	3.9
Losses for which no deferred tax asset has been recognised	1.2	3.4	34.2	38.8
Deferred tax asset	2.4	3.4	36.9	42.7

At 31 December 2017, the Group had no other items for which no deferred tax assets have been recognised (2016: £11.1 million).

10 Dividends

	2017 pence per share	2017 £million	2016 pence per share	2016 £million
Final dividend for prior year	3.90	6.3	3.80	6.2
Interim dividend for current year	1.75	2.8	1.70	2.7
	5.65	9.1	5.50	8.9

The Directors recommend a final dividend of 4.05 pence per share which when combined with the interim dividend of 1.75 pence per share gives a total dividend for the year of 5.8 pence per share. The Group has a progressive dividend policy. The final dividend will be paid on 18 May 2018 to shareholders on the register on 27 April 2018.

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	2017	2016 (re-presented)
Basic earnings per share		
Continuing operations	9.7	7.3
Discontinued operations	19.8	3.0
Total	29.5	10.3

Pence	2017	2016 (re-presented)
Diluted earnings per share		
Continuing operations	9.5	7.3
Discontinued operations	19.3	3.0
Total	28.8	10.3

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

Underlying earnings per share:

£million	2017	2016 (re-presented)
Continuing operations		
Profit for the year attributable to owners of the Company	15.7	11.9
Restructuring and other	1.6	(2.0)
Acquisition and disposal related costs	2.7	3.8
Tax effect of above items (see note 8a)	(0.6)	(1.0)
Impact of US tax reform legislation	(1.8)	–
Underlying earnings	17.6	12.7
Underlying earnings per share (pence)	10.9	7.8

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

Million	2017	2016
Basic	161.7	162.2
Adjustment for share awards	3.9	–
Diluted	165.6	162.2

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	2017	2016 (re-presented)
By function		
Production	3,622	3,566
Sales and distribution	275	283
Administration	240	258
	4,137	4,107
By division		
Sensors and Specialist Components	2,166	2,073
Power Electronics	697	644
Global Manufacturing Solutions	1,274	1,390
Total	4,137	4,107

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

£million	2017	2016 (re-presented)
Wages and salaries	87.0	81.6
Social security charges	19.3	17.3
Employers' pension costs	2.4	2.4
Defined benefit pension costs	1.2	1.2
Pension settlement	–	(0.6)
Share based payments expense	4.1	2.7
	114.0	104.6

Remuneration in respect of the Directors was as follows:

£million	2017	2016
Emoluments	3.8	1.9

Further details of individual Directors' remuneration, pension benefits and share awards are shown in the Directors' Remuneration Report on pages 62 to 80.

Key management personnel

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

£million	2017	2016 (re-presented)
Short-term benefits	4.9	4.6
Pension and other post-employment benefit expense	0.1	0.2
Share-based payments	2.0	2.0
Termination payments	0.1	–
	7.1	6.8

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 2016	55.2	285.2	340.4
Additions	2.1	16.3	18.4
Disposals	(8.5)	(15.2)	(23.7)
Transfers	–	(2.3)	(2.3)
Net exchange adjustment	7.3	38.7	46.0
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 31 December 2017	26.6	164.7	191.3
Depreciation and impairment			
At 1 January 2016	21.5	229.3	250.8
Depreciation charge	2.1	16.2	18.3
Impairment	1.0	–	1.0
Disposals	(1.7)	(14.7)	(16.4)
Transfers	–	(1.5)	(1.5)
Net exchange adjustment	3.1	31.3	34.4
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 31 December 2017	12.8	136.7	149.5
Net book value			
At 31 December 2017	13.8	28.0	41.8
At 31 December 2016	30.1	62.1	92.2

Included within land and buildings are two (2016: three) investment properties with a carrying value of £0.5 million (2016: £0.8 million). One investment property with a carrying value of £0.3m was disposed of during the year. The fair value of the remaining properties is £3.7 million (2016: £3.9 million).

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 division were identified and an impairment of £0.1 million was recognised within items excluded from underlying profit.

In 2016 the Group identified indicators of impairment at two sites. For one site the net book value of £2.0 million exceeded an external valuation of £1.2 million and as a result an impairment of £0.8 million was recognised. A further vacant site with a net book value of £0.2 million was due for demolition and was impaired as a result. The impairments were recognised within items excluded from underlying profit.

Capitalised software with a cost of £4.2 million (2016: £2.3 million) and accumulated depreciation of £3.1 million (2016: £1.5 million) has been transferred to intangible assets.

Notes to the consolidated financial statements continued

14 Goodwill

£million	
Cost	
At 1 January 2016	95.2
Net exchange adjustment	11.3
At 1 January 2017	106.5
Additions	0.4
Disposal of subsidiaries	(0.7)
Net exchange adjustment	(5.9)
At 31 December 2017	100.3

Following the reorganisation of the Group announced on 1 August 2017, goodwill is attributed to the following cash-generating units in the divisions shown below:

£million	2017
Sensors and Specialist Components:	
Variable Components	28.3
Optoelectronics	21.2
Roxspur	2.1
Resistors	2.2
Power Electronics	28.7
Global Manufacturing Solutions	17.8
	100.3

At 31 December 2016 and under the previous organisational structure, the goodwill was allocated as follows:

£million	2016
Sensors and Specialist Components:	
Variable Components	31.0
Optoelectronics	23.2
Roxspur	2.1
Resistors	2.4
Power Electronics:	
Aero Stanrew	22.7
Power and Hybrid	5.8
Global Manufacturing Solutions:	
TT electronics integrated manufacturing services, USA	10.1
TT electronics integrated manufacturing services, Suzhou	5.1
New Chapel Electronics, UK	3.4
Other	0.7
	106.5

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 has detailed plans. Management estimates 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.

14 Goodwill continued

As part of the annual budgeting and strategic planning processes, the Group prepares cash flow forecasts for the following five years. In 2017, 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 1.9% for the UK businesses, 1.7% for the US businesses and 3.0% for the Chinese businesses (2016: 2% for the UK and US businesses and 2.3% 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.

For the year ended 31 December 2017, the pre-tax discount rates used to discount the forecast cash flows are shown below:

	2017
Variable Components	15.3%
Optoelectronics	13.1%
Roxspur	10.7%
Resistors	12.9%
Power Electronics	10.8%
Global Manufacturing Solutions	12.2%

For the year ended 31 December 2016, and under the previous organisational structure the pre-tax discount rates used to discount the forecast cash flows were as follows:

	2016
Variable Components	11.9%
Optoelectronics	11.8%
Roxspur	10.1%
Resistors	11.9%
Aero Stanrew	10.5%
Power and Hybrid	11.0%
TT electronics integrated manufacturing services, USA	11.9%
TT electronics integrated manufacturing services, Suzhou	12.6%
New Chapel Electronics, UK	10.5%

Recoverable amounts exceed the total carrying value of assets for all of the CGUs and consequently no impairment losses have been recognised in the current or prior year.

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.

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

£million	Product development costs	Patents, licences and other	Customer relationships	Total
Cost				
At 1 January 2016	34.1	22.6	24.8	81.5
Additions	1.5	5.3	–	6.8
Transfers	–	2.3	–	2.3
Net exchange adjustment	2.1	0.6	0.3	3.0
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 31 December 2017	5.3	28.0	25.3	58.6
Amortisation				
At 1 January 2016	29.6	10.9	4.4	44.9
Charge for the year	1.9	5.0	1.9	8.8
Transfers	–	1.5	–	1.5
Net exchange adjustment	1.1	0.4	0.2	1.7
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 31 December 2017	2.4	21.0	7.9	31.3
Net book value				
At 31 December 2017	2.9	7.0	17.4	27.3
At 31 December 2016	5.1	13.0	18.6	36.7

Included within patents, licences and other are intangible assets under construction with a carrying value of £2.1 million (2016: £1.6 million). Included within additions for 2016 is £1.1 million related to new finance leases.

The Group identified indicators of impairment with software associated with the Transportation division. Following the disposal of the division an impairment of £3.3 million was recognised within items excluded from underlying profit.

Included within the amortisation charge for the year is £2.3 million (2016: £3.5 million) included within items excluded from underlying profit.

Capitalised software with a cost of £4.2 million (2016: £2.3 million) and accumulated depreciation of £3.1 million (2016: £1.5 million) was transferred from property, plant and equipment.

16 Inventories

£million	2017	2016
Raw materials	30.5	40.1
Work in progress	16.1	18.5
Finished goods	12.5	21.0
	59.1	79.6

Inventories are stated after deduction of a provision for slow moving and obsolete items of £20.1 million (2016: £28.8 million).

17 Trade and other receivables

£million	2017	2016
Trade receivables	48.3	77.4
Prepayments	5.0	7.8
Other receivables	12.7	11.6
	66.0	96.8

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

18 Trade and other payables

£million	2017	2016
Current liabilities		
Trade payables	29.3	41.7
Taxation and social security	3.1	4.6
Other payables, accruals and deferred income	30.6	48.5
	63.0	94.8
Non-current liabilities		
Accruals and deferred income	0.1	4.6

Notes to the consolidated financial statements continued

19 Provisions

£million	Operational Improvement Plan	Reorganisation	Legal, warranty and other	Total
At 1 January 2016	5.4	1.8	5.6	12.8
Utilised	(4.5)	(0.2)	(0.7)	(5.4)
Released	(0.1)	(0.4)	(1.0)	(1.5)
Arising during the year	–	0.6	0.3	0.9
Exchange differences	0.5	0.2	–	0.7
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)
At 31 December 2017	–	1.9	5.4	7.3

The Operational Improvement Plan provision relates to fundamental restructuring of the manufacturing footprint and sales organisation of the Transportation and the Sensors and Specialist Components divisions. £1.1 million was utilised in the year and the remaining liabilities were transferred as part of the disposal of the Transportation division in October 2017.

The reorganisation provision primarily relates to the restructuring programme associated with the closure of the Boone, North Carolina operations, the transfers of lines in Sensors and Specialist Components to low cost manufacturing sites and the planned closure of our GMS facilities in Timisoara, Romania. The charge in the year relates to the planned closure of our GMS facilities in Timisoara, Romania. The utilisation in the year relates to site consolidation in the UK now substantially complete, and costs associated with the closure of the Boone. The release in the year relates to the transfers of lines in Sensors and Specialist Components to low cost manufacturing sites.

Legal, warranty and other claims represent the best estimate for the cost of settling outstanding product and other claims, and warranty provisions created on the disposal of businesses. The charge relates to costs, including warranties, associated with the Transportation division disposal. The release relates to excess provisions established for industrial claims.

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

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

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

20 Borrowings

£million	Maturity	Currency of denomination	Current	Non-current	Total
At 31 December 2017					
Finance leases			0.3	0.3	0.6
Total			0.3	0.3	0.6
At 31 December 2016					
£150 million multi-currency revolving credit facility	2021	GBP	–	62.0	62.0
	2021	EUR	–	17.9	17.9
	2021	USD	–	24.3	24.3
AB Mikroelektronik GmbH loan	2017	EUR	1.5	–	1.5
Finance leases			0.3	0.6	0.9
Loan arrangement fee			(0.2)	(1.2)	(1.4)
Total			1.6	103.6	105.2

In May 2016, the Group signed a new five-year £150 million multi-currency revolving credit facility and a further uncommitted incremental accordion facility of £30 million with a syndicate of seven banks comprising HSBC, The Royal Bank of Scotland, Barclays Bank, Fifth Third Bank, Comerica Bank, Lloyds Bank and Bank of Ireland. As at 31 December 2017, £nil of the facility was drawn down. Arrangement fees with a gross cost before amortisation of £1.7 million, and amortised cost of £1.1 million, have been reported within current assets.

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 2017, the total borrowing facilities available to the Group amounted to £204.8 million (2016: £228.5 million). At 31 December 2017, the Group had available £154.6 million (2016: £65.2 million) of undrawn committed borrowing facilities (comprising the main facility £150.0 million (2016: £45.8 million), China £4.6 million (2016: £16.3 million) and Austria £nil (2016: £3.1 million)) and £49.6 million (2016: £57.6 million) of undrawn uncommitted borrowing facilities, representing overdraft lines and the accordion facility.

21 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).

Notes to the consolidated financial statements continued

21 Financial risk management continued

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.

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 one year 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 2017 is taken to the hedging reserve within equity. At 31 December 2017, the Group had a net derivative financial asset of £1.0 million (2016: £1.8 million liability).

b) Foreign exchange risk

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

£million	GBP	USD	Euro	Other	Total
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
31 December 2016					
Trade and other receivables	0.1	9.2	2.0	0.1	11.4
Cash and cash equivalents	0.5	9.1	1.1	1.0	11.7
Borrowings	–	(24.3)	(17.9)	–	(42.2)
Trade and other payables	(1.9)	(6.2)	(1.2)	(2.4)	(11.7)
	(1.3)	(12.2)	(16.0)	(1.3)	(30.8)

A 10% strengthening of GBP against the following currencies at 31 December would have 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	2017	2016
US dollar	(0.3)	0.7
Euro	(0.2)	1.6

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.

21 Financial risk management continued

c) Interest rate risk

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates primarily impact borrowings by changing their future cash flows (floating rate debt) or their fair value (fixed rate debt) and deposits. The Group's objective is to manage this interest rate exposure through the use of interest rate derivatives.

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

£million	Floating rate	Fixed rate	Non-interest bearing	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)

At 31 December 2017, 100% of total debt was at a fixed rate (2016: 24% when including the effect of derivatives with the balance at floating rate).

£million	Floating rate	Fixed rate	Non-interest bearing	2016 total
Financial assets				
Trade and other receivables	–	–	82.3	82.3
Cash and cash equivalents	49.8	–	–	49.8
Derivative financial instruments	–	–	0.6	0.6
Total financial assets	49.8	–	82.9	132.7
Financial liabilities				
Borrowings (including interest effects of derivatives)	(80.0)	(25.2)	–	(105.2)
Trade and other payables	–	–	(97.7)	(97.7)
Derivative financial instruments	–	–	(2.4)	(2.4)
Total financial liabilities	(80.0)	(25.2)	(100.1)	(205.3)

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.

Given the net funds position of the Group at 31 December 2017, any change in interest rates would have no significant impact on the consolidated income statement. The effect on profit after tax of a 1% movement in £LIBOR, based on the year end floating rate net cash and with all other variables held constant, is estimated to be £nil (2016: £0.7 million).

d) Credit risk

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

Notes to the consolidated financial statements continued

21 Financial risk management continued

Credit risk relating to trade receivables

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

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

Trade receivables are denominated in the currencies in which the Group trades. The Group's policy is that receivables and payables not in the functional currency of the subsidiary concerned are, in the main, hedged through forward foreign currency exchange contracts.

There were no material impairments of trade receivables as at 31 December 2017 or 2016. 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	2017	2016
Europe (including UK)	26.1	47.7
North America	11.0	14.1
Central and South America	0.1	0.9
Asia	10.6	14.3
Rest of the World	0.5	0.4
	48.3	77.4

(ii) Impairment losses

The ageing of trade receivables at 31 December was:

£million	2017		2016	
	Gross	Impairment	Gross	Impairment
Not past due	41.1	–	66.9	–
Past due 0–60 days	6.8	(0.2)	10.5	–
Past due 61–120 days	0.7	(0.1)	0.7	(0.7)
More than 120 days	0.1	(0.1)	–	–
	48.7	(0.4)	78.1	(0.7)

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

£million	2017	2016
At 1 January	(0.7)	(0.6)
Charged to income statement	–	(0.4)
Disposal of subsidiaries	0.3	–
Utilised	–	0.3
At 31 December	(0.4)	(0.7)

21 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 is 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	2017	2016
Other receivables	10.4	4.9
Cash and cash equivalents	46.5	49.8
Derivative financial instruments (current assets)	1.6	0.6

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 2017, the Group had £154.6 million of undrawn committed borrowing facilities (2016: £65.2 million) and £49.6 million (2016: £57.6 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 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)

At 31 December 2017, the Group had derivative financial instruments hedging a notional contractual amount of £76.9 million (2016: £112.7 million) of foreign exchange all (2016: £85.3 million) maturing within one year.

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2016						
Trade and other receivables	–	81.4	0.9	–	–	82.3
Cash and cash equivalents	49.8	–	–	–	–	49.8
	49.8	81.4	0.9	–	–	132.1
Borrowings	–	(0.1)	(1.5)	(103.6)	–	(105.2)
Trade and other payables	–	(84.0)	(9.2)	(3.9)	(0.6)	(97.7)
	–	(84.1)	(10.7)	(107.5)	(0.6)	(202.9)

Notes to the consolidated financial statements continued

21 Financial risk management continued

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 2017	(0.6)	(2.9)	(1.0)	(1.0)	(0.6)	(0.3)	–
31 December 2016	(105.2)	(116.1)	(4.0)	(2.4)	(2.4)	(2.2)	(105.1)

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	2017		2016	
		Carrying value	Fair value	Carrying value	Fair value
Held at amortised cost					
Cash and cash equivalents	n/a	46.5	46.5	49.8	49.8
Trade and other receivables	n/a	58.6	58.6	82.3	82.3
Trade and other payables	n/a	(61.4)	(61.4)	(97.7)	(97.7)
Borrowings	n/a	(0.6)	(0.6)	(105.2)	(105.2)
Held at fair value					
Derivative financial instruments (assets)	2	1.6	1.6	0.6	0.6
Derivative financial instruments (liabilities)	2	(0.6)	(0.6)	(2.4)	(2.4)
Held at depreciated cost					
Investment properties	3	0.5	3.7	0.8	3.9

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 (£1.6 million) and liabilities (£0.6 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.

21 Financial risk management continued

Dividends are paid when the Board considers it appropriate to do so, taking into account the availability of funding. The Group has a progressive dividend policy.

The Group has net funds of £47.0 million (2016: £55.4 million net debt). 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.

22 Retirement benefit schemes

Defined contribution schemes

The Group operates 401(k) plans in North America and defined contribution arrangements in the rest of the world. The assets of these schemes are held independently of the Group. The total contributions charged by continuing operations in respect of defined contribution schemes were £2.4 million (2016: £2.4 million).

Defined benefit schemes

During the year the Group operated a significant defined benefit scheme in the UK and schemes in the USA (which includes a post retirement medical benefit element). The Group's main scheme is the UK plan which commenced in 1993 and increased in size in 2006 and 2007 through the merger of the UK former schemes. The parent company is the sponsoring employer in the UK plan. The UK plan is governed by TTG Pension Trustees Limited (the "Trustee") that has control over the operation, funding and investment strategy in consultation with the Group.

The scheme exposes the Group to actuarial risks such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual, entity specific or scheme specific risks, but given the material nature of the UK scheme, the Group has developed a comprehensive strategy to manage the financial risk associated with it:

- Maintaining a long-term working partnership with the Trustee to ensure strong governance of risks within the UK scheme. The UK scheme is a long-term undertaking and is managed accordingly, in order to provide security to members' benefits and value for money to the Group.
- A prudent investment strategy is pursued by seeking risk-rewarded long-term returns whilst removing the majority of liability mismatching unrewarded risks. As such, the Group has in place financial hedging that removes the majority of interest rate yield and inflation risk. At the current level there is no significant impact on the deficit of a 10bps fall in yields (which would be otherwise a 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.
- The Group recognises that seeking rewarded risk returns in its investment strategy could lead to short-term fluctuations in funding levels depending on market conditions. The Group considers that by maintaining a good relationship with the Trustee, it will be able to utilise flexibility in the funding regime to even out the impact of short-term market underperformance to enhance predictability of Group pension contributions. This creates a suitable balance between the needs of the UK scheme, the Group, and the members.

The Trustee's investment strategy mitigates the majority of these risks. Market (investment) risk is addressed by diversification across asset classes and managers within those asset classes. During the year, some amendments were made to the investment strategy to reduce this risk further. 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). The Company and Trustee undertook a pension increase exchange exercise in 2017 to reduce the scheme's inflation risk exposure.

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. The target hedge level is kept under review and any change would be in consultation with the Group.

The Trustee does not currently hedge the longevity risk, although prudent assumptions are made regarding anticipated longevity for the purposes of the actuarial valuation and Recovery Plan.

The Trustee, in conjunction with the Group, has a duty to ensure that the UK plan has an appropriate funding strategy in place that meets any local statutory requirements. The objective, which has been negotiated and agreed between the Group and the Trustee, is that the UK plan should target 100% funding on a basis that should ensure benefits can be paid as they fall due. Any shortfall in the assets relative to the funding target will be financed over a period that ensures the contributions are reasonably affordable to the Group.

The weighted average duration of the UK defined benefit obligation is 18 years.

Notes to the consolidated financial statements continued

22 Retirement benefit schemes continued

UK legislation requires the Trustee to carry out funding valuations at least every three years and to target full funding against a basis that prudently reflects the UK plan's risk exposure.

The Trustee allocates the UK plan's assets across a range of investments to help diversify and manage risks. In particular a significant portion of the assets are in investments that aim to broadly match the term and nature of the liabilities.

The triennial valuation of the UK scheme as at April 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 UK scheme, based on the actuarial deficit at April 2016. Given the nature of the Company's control of the plan under the Scheme's rules, a pension surplus may be accounted for under IFRIC 14.

These planned contributions amount to £4.9 million, £5.1 million and £3.9 million to be paid over the next three 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 scheme.

Both the UK and USA schemes are closed to new members and the UK scheme was closed to future accrual in 2010.

An actuarial valuation of the USA defined benefit scheme was carried out by independent qualified actuaries in 2017 using the projected unit credit method. Pension scheme assets are stated at their market value at 31 December 2017.

An analysis of the pension (surplus)/deficit by country is shown below:

£million	2017	2016
UK	(15.1)	2.2
USA	3.2	3.5
Net (surplus)/deficit	(11.9)	5.7

The principal assumptions used for the purpose of the actuarial valuations for the Group's primary defined benefit scheme, the UK scheme, were as follows:

%	2017	2016
Discount rate	2.5	2.7
Inflation rate (RPI)	3.3	3.4
Increases to pensions in payment (LPI 5% pension increases)	3.1	3.3
Increases to deferred pensions (CPI)	2.3	2.4

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. 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), 92 years (female).

The mortality tables applied by the actuaries at 31 December 2016 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 £9.7 million. An increase by 0.1% per annum in the inflation rate increases the liabilities by approximately £3.8 million; by £1.1 million for pensions in payment and £2.7 million for deferred pensions. An increase in the life expectancy of one year increases the liabilities by approximately £20.8 million.

22 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 surplus/(deficit) in the Consolidated balance sheet are:

£million		2017	2016
Equities			
UK	Quoted	9.9	2.0
	Unquoted	3.2	13.7
Overseas	Quoted	96.7	39.2
	Unquoted	41.6	121.0
Government bonds			
UK	Fixed	119.7	66.8
	Index-linked	107.8	110.5
Overseas		32.8	30.5
Corporate bonds		77.9	102.4
Cash and cash equivalents		16.1	22.6
Derivatives		(6.0)	(11.2)
Other		60.1	48.7
Fair value of assets		559.8	546.2
Present value of defined benefit obligation		(547.9)	(551.9)
Net surplus/(liability) recognised in the Consolidated balance sheet		11.9	(5.7)

The scheme 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	2017	2016
Scheme administration costs	1.2	1.2
Past service credit (non-underlying)	(2.3)	–
Net interest cost	0.1	0.7
Settlements and curtailments	–	(0.6)

The actual return on scheme assets was a gain of £33.2 million (2016: gain of £122.7 million).

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

£million	2017	2016
Defined benefit obligation at 1 January	551.9	463.3
Past service credit	(2.3)	–
Interest on obligation	14.7	17.2
Settlements and curtailments	–	(0.6)
Remeasurements:		
Effect of changes in demographic assumptions	–	(2.5)
Effect of changes in financial assumptions	9.7	102.2
Effect of experience adjustments	–	(4.8)
Benefits paid	(25.1)	(24.8)
Exchange	(1.0)	1.9
Defined benefit obligation at 31 December	547.9	551.9
UK	536.8	539.8
USA	11.1	12.1
	547.9	551.9

Notes to the consolidated financial statements continued

22 Retirement benefit schemes continued

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

£million	2017	2016
Fair value of schemes' assets at 1 January	546.2	442.2
Interest income on defined benefit scheme assets	14.6	16.5
Return on scheme assets, excluding interest income	20.0	106.2
Contributions by employer	6.0	5.8
Pension scheme expenses	(1.2)	(1.2)
Benefits paid	(25.1)	(24.8)
Exchange	(0.7)	1.5
Fair value of schemes' assets at 31 December	559.8	546.2

23 Share capital and other reserves

Share capital

£million	2017	2016
Issued and fully paid		
162,917,134 (2016: 162,303,075) ordinary shares of 25p each	40.7	40.6

The performance conditions of the Long Term Incentive Plan awards and Restricted Share Plan issued 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 Plans. A separate Long Term Incentive Plan award made on 29 December 2014 vested on 1 January 2018.

The Company issued 614,059 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.9 million, which resulted in an increase in share premium of £0.8 million.

Other reserves

£million	Share options reserve	Merger reserve	Total
At 1 January 2016	3.6	3.4	7.0
Share-based payments	2.4	–	2.4
Deferred tax on share-based payments	0.2	–	0.2
At 31 December 2016	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

24 Share-based payment plans

The Company has the following share-based payment plans in operation at 31 December 2017:

- Long Term Incentive Plan ("LTIP") for senior executives;
- Restricted Share Plan for certain senior executives; and
- Sharesave plans for UK, German and Austrian employees; and a Share Purchase plan for US employees.

24 Share-based payment plans continued

a) Long Term Incentive Plans

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

	2017	2016
	Number of share awards	Number of share awards
At 1 January	7,009,889	5,489,297
Granted	2,232,317	2,524,916
Forfeited	(1,481,512)	(1,004,324)
At 31 December	7,760,694	7,009,889
Exercisable at 31 December	–	–

During 2016 and 2017, grants of awards were made under the LTIP for the issue of shares in 2019 and 2020 respectively. The award is a contingent right to receive shares in the future, subject to continued employment and the achievement of predetermined performance criteria. The performance targets attached to awards require the achievement of earnings per share ("EPS") and total shareholder return ("TSR") targets as detailed in the Directors' Remuneration Report on page 75.

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. On 16 March and 30 December 2016, grants of awards were made under the LTIP for the issue of up to 2,334,839 shares and 190,077 shares in 2019.

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

The following table lists the inputs to the model:

	2017			2016	
	Shares with an 8 December 2017 grant date	Shares with a 17 August 2017 grant date	Shares with a 15 March 2017 grant date	Shares with a 30 December 2016 grant date	Shares with a 16 March 2016 grant date
Number of awards	15,447	86,500	2,130,370	190,077	2,334,839
Fair value at grant date	187.0p	187.0p	156.0p	135.7p	134.9p
Share price at grant date	223.8p	220.7p	182.0p	163.0p	162.0p
Exercise price	£nil	£nil	£nil	£nil	£nil
Expected volatility	40%	40%	40%	27%	27%
Expected weighted average life at 31 December (years)	2.9	2.6	2.3	3.0	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 15 March 2017, 58,275 (16 March 2016: 74,779) 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 15 March, 17 August and 8 December 2017 (16 March and 30 December 2016) LTIP grants.

The performance conditions for the LTIP grants made on 9 May and 22 August 2014 were not met and, accordingly, no ordinary shares were issued during 2017 in connection with these awards.

A separate LTIP award made on 29 December 2014 vested on 1 January 2018.

24 Share-based payment plans continued

b) Restricted Share Plan

On 25 March 2014, the Group granted 153,800 shares under the Restricted Share Plan. The award is a contingent right to receive shares with 40% vesting on the third anniversary of the date of the grant and the remaining 60% vesting in April 2017 subject to continued employment with the Group and the achievement of predetermined performance criteria. The performance targets attached to the awards require the achievement of three equally weighted performance criteria: Revenue Growth Targets, Profit Margin Targets and Return on Capital Employed. The fair value of the shares at the grant date was 202.0p. The performance conditions associated with the vesting on the third anniversary were not met and, accordingly, no ordinary shares were issued during 2017 in connection with the award.

On 18 March 2015, the Group granted 1,015,000 shares under the Restricted Share Plan. The award is a contingent right to receive shares with 50% vesting on the third anniversary of the date of the grant and the remaining 50% vesting in April 2018 subject to continued employment with the Group and the achievement of predetermined performance criteria. Half of the award is subject to a performance condition based on the absolute earnings per share figure for the financial year ending 31 December 2017. The remaining half of the award is subject to a performance condition comparing the Company's total shareholder return performance against the constituent companies of the FTSE Small Cap Index (excluding investment trusts) over a period of three years commencing on the award date.

On 18 March 2015 50,000 shares were granted to a senior executive which will ultimately be settled in cash. This award is subject to the same criteria as the 18 March RSP grant.

On 30 December 2016 44,465 shares were also 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 initial vesting period, 22,232 shares vested.

Details of the Restricted Share Plan awards outstanding during the year are as follows:

	2017	2016
	Number of share awards	Number of share awards
At 1 January	1,165,502	1,613,026
Granted	–	44,465
Forfeited	(180,500)	(367,280)
Vested	(22,232)	–
Expired	–	(124,709)
At 31 December	962,770	1,165,502
Exercisable at 31 December	–	–

c) Sharesave schemes

The Group operates Sharesave schemes for participating employees in the UK, Germany and Austria under a three-year plan (historically a five-year plan was offered which was discontinued during 2013). Employees may purchase the Group's shares at a 20% discount to the market price on the day prior to the commencement of the offer up to a maximum contribution value of £6,000 (UK) or €6,900 (Germany/Austria) 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 either three or five years from commencement of the savings contract. Options become exercisable on completion of either the three- or five-year term or within six months of leaving in certain circumstances.

	Date price set	Market price	Option price	Options outstanding
UK	30 September 2014	167.0p	136.0p	39,173
Germany/Austria	19 October 2015	131.0p	106.0p	2,515
UK	22 September 2015	130.0p	131.0p	432,018
Germany/Austria	26 September 2016	146.25p	117.0p	2,670
UK	25 August 2016	153.0p	123.0p	652,114
UK	24 August 2017	220.5p	178.0p	595,180

24 Share-based payment plans continued

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

	2017	2016	2016
pence	UK	UK	Germany/ Austria
3 year scheme	86.0	31.0	35.0

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

	2017	2016
	Number of share awards	Number of share awards
At 1 January	2,145,551	1,698,511
Granted	598,718	830,504
Forfeited	(350,663)	(195,922)
Exercised	(669,936)	(187,542)
At 31 December	1,723,670	2,145,551
Exercisable at 31 December	115,694	210,052

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

The total share-based payment charge for the year (excluding social security charge of £1.4 million (2016: £0.5 million) arising from the above share scheme plans was £4.1 million (2016: £2.7 million).

25 Reconciliation of net cash flow to movement in net funds/(debt)

£million	Net cash	Borrowings and finance leases	Unamortised loan arrangement fees	Net funds/ (debt)
At 1 January 2016	40.3	(96.4)	–	(56.1)
Cash flow	5.5	–	–	5.5
Repayment of borrowings	–	113.7	–	113.7
Proceeds from borrowings	–	(114.6)	–	(114.6)
Finance lease payments	–	0.3	–	0.3
New finance leases	–	(1.1)	–	(1.1)
Amortisation of loan arrangement fees	–	(0.7)	–	(0.7)
Exchange differences	4.0	(6.4)	–	(2.4)
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 31 December 2017	46.5	(0.6)	1.1	47.0

Net cash includes overdraft balances of £nil (2016: £nil).

26 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 18, the Directors consider the likelihood of any other claims giving rise to a significant liability to be remote.

Notes to the consolidated financial statements continued

27 Capital commitments

£million	2017	2016
Contractual commitments for the purchase of property, plant and equipment	0.8	3.9

28 Operating leases

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

£million	2017	2016 (re-presented)
Fixtures and equipment	0.3	0.3
Land and buildings	3.6	3.5

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

£million	2017	2016
In less than one year	2.6	4.0
Between one and five years	6.7	7.5
After five years	4.0	1.2

29 Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

No related party transactions have taken place in 2017 or 2016 that have affected the financial position or performance of the Group.

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

30 Subsequent events

On 15 February 2018, the Group announced a recommended cash offer for Stadium Group plc's entire issued and to be issued share capital. Stadium Group plc is a leading supplier of design led technologies with customers in the industrial, aerospace and defence, medical and transportation sectors. Subject to the approval of the scheme by the Stadium shareholders by the requisite majorities and the sanctioning of the scheme by the court, Stadium Group plc shareholders will be entitled to receive 120 pence in cash for each Stadium Group plc share, which values the entire issued share capital of Stadium Group plc at approximately £45.8 million. The Group will also acquire net debt of circa £11.8 million as at 31 December 2017.

Company statement of financial position

at 31 December 2017

£million	Note	2017	2016
Fixed assets			
Tangible assets	2	1.0	1.1
Intangible assets	2	4.6	8.2
Investments	3	164.6	96.5
Deferred tax asset	11	2.7	1.4
Pensions	10	15.1	–
		188.0	107.2
Current assets			
Debtors	4	110.2	130.9
Cash at bank and in hand		6.6	4.2
		116.8	135.1
Current liabilities			
Borrowings	6	0.3	0.3
Creditors: amounts falling due within one year	5	128.2	51.2
		(11.7)	83.6
Net current assets			
		176.3	190.8
Total assets less current liabilities			
Borrowings	6	0.3	0.6
Deferred tax liability	11	2.6	–
Pensions	10	–	2.2
		173.4	188.0
Net assets			
Capital and reserves			
Called up share capital	7	40.7	40.6
Share premium account	8	2.9	2.1
Merger reserve		3.4	3.4
Profit and loss account	9	126.4	141.9
		173.4	188.0
Shareholders' funds			

Approved by the Board of Directors on 7 March 2018 and signed on their behalf by:



Richard Tyson
Director



Mark Hoad
Director

Company statement of changes in equity

for year ended 31 December 2017

£million	Share capital	Share premium	Merger reserve	Profit and loss account	Total
At 1 January 2016	40.5	1.8	3.4	129.2	174.9
Profit for the year	–	–	–	9.7	9.7
Other comprehensive income					
Remeasurement of defined benefit pension schemes	–	–	–	11.4	11.4
Tax on remeasurement of defined benefit pension schemes	–	–	–	(2.1)	(2.1)
Total other comprehensive income	–	–	–	9.3	9.3
Transactions with owners recorded directly in equity					
Dividends paid by the Company	–	–	–	(8.9)	(8.9)
Share-based payments	–	–	–	2.4	2.4
Deferred tax on share-based payments	–	–	–	0.2	0.2
New shares issued	0.1	0.3	–	–	0.4
At 31 December 2016	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

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 the 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 22 of the Consolidated financial statements and;
- Note 5 – Accruals. The Company makes appropriate provision on a consistent basis for restructuring and other normal trading exposures with estimates being made regarding the timing of future payments.

c) Going concern

Details of the Directors' assessment of the Company's ability to continue in operational existence for at least 12 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 54.

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	Freehold land and buildings	Plant, equipment and vehicles	Total tangible fixed assets
Cost				
At 1 January 2017	14.6	2.2	2.0	4.2
Additions	2.0	–	0.2	0.2
Disposals	–	(2.2)	(1.1)	(3.3)
At 31 December 2017	16.6	–	1.1	1.1
Depreciation				
At 1 January 2017	6.4	2.2	0.9	3.1
Charge for the year	2.3	–	0.2	0.2
Disposals	–	(2.2)	(1.1)	(3.3)
Impairment	3.3	–	0.1	0.1
At 31 December 2017	12.0	–	0.1	0.1
Net book value				
At 31 December 2017	4.6	–	1.0	1.0
At 31 December 2016	8.2	–	1.1	1.1

Included within intangible fixed assets are assets under construction with a carrying value of £1.4 million (2016: £1.6 million).

3 Fixed asset investments

£million	Subsidiary undertakings
Cost	
At 1 January 2017	134.3
Additions	71.9
At 31 December 2017	206.2
Provisions	
At 1 January 2017	37.8
Impairment	3.8
At 31 December 2017	41.6
Net book value	
At 31 December 2017	164.6
At 31 December 2016	96.5

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 was part of a restructuring within the TT Electronics Group. As part of the restructuring the Company assumed intercompany debts amounting to £71.9 million owed by certain subsidiaries. No consideration was received in exchange for assuming these debts and the Company has therefore recorded an additional investment.

4 Debtors

£million	2017	2016
Amounts owed by subsidiary undertakings	106.3	126.8
Prepayments, accrued income and other receivables	3.9	4.1
	110.2	130.9

5 Creditors

£million	2017	2016
Amounts falling due within one year		
Trade creditors	1.2	0.6
Amounts owed to subsidiary undertakings	119.3	44.1
Taxation and social security	0.8	1.1
Accruals and deferred income	6.9	5.4
	128.2	51.2

6 Borrowings

£million	Current	Non-current	Total
At 31 December 2017			
Finance leases	0.3	0.3	0.6
At 31 December 2016			
Finance leases	0.3	0.6	0.9

7 Share capital

£million	2017	2016
Issued, called up and fully paid		
162,917,134 (2016: 162,303,075) ordinary shares of 25p each	40.7	40.6

The performance conditions of the Long Term Incentive Plan awards and Restricted Share Plan issued 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 Plans. A separate Long Term Incentive Plan award made on 29 December 2014 vested on 1 January 2018.

The Company issued 614,059 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.9 million, which resulted in an increase in share premium of £0.8 million.

8 Share-based payments

Details of share-based payments are shown in note 24 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 £13.7 million (2016: £9.7 million profit). The auditor's remuneration for audit services is disclosed in note 6 to the Consolidated financial statements. The Company's distributable reserves comprise the balance of the profit and loss account of £126.8 million (2016: £141.9 million).

10 Pension schemes

Defined benefit scheme

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 Company has agreed additional fixed contributions extending to 2020 with the scheme, based on the actuarial deficit at April 2016. These planned contributions amount to £4.9 million, £5.1 million and £3.9 million to be paid over the next three years. In addition, the Company has set aside £2.6 million over the last three years to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme. Further details of the scheme are provided in note 21 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 2017 were £0.5 million (2016: £0.5 million).

11 Deferred tax

The deferred tax asset of £2.7 million is in respect of share-based payments (2016: £1.0 million) the movement in which has been recognised in profit (£0.7 million) and equity (£1.0 million).

The deferred tax liability of £2.6 million is in respect of the pension asset (2016: £0.4 million deferred tax asset), the movement in which has been recognised in profit (£1.3 million charge) and equity (£1.7 million charge).

At 31 December 2017, the Company had recognised no deferred tax assets on gross tax losses of £8.1 million (2016: £13.8 million) and gross property, plant and equipment temporary differences of £7.7 million (2016: £1.3 million).

The Company has £8.0 million (2016: £20.4 million) of unrecognised tax losses available for offset against future profit.

12 Commitments under operating leases

The Company has outstanding commitments under non-cancellable operating leases of £0.7 million (2016: £0.9 million), £0.2 million (2016: £0.2 million) falling due in one year and £0.5 million (2015: £0.7 million) falling due between two and five years.

13 Related party transactions

During 2017 and 2016, 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
AB Electronics (Suzhou) Co., Ltd	2
TT Electronics Integrated Manufacturing Services (Suzhou) Co., Ltd	2
TT Electronics SAS	3
TT Electronics GmbH	4
TT Electronics Srl	5
BI Technologies Corporation SDN BHD (ordinary and preference shares)	6
BI Technologies S.A. de C.V.	7
Optron de Mexico S.A. de C.V.	8
TT Electronics Integrated Manufacturing Services SRL	9
TT Electronics Asia Pte Ltd	10
Aero Stanrew SARL (99.6% owned)	11
AB Elektronik Ukraine (in liquidation)	12
AB Connectors Limited	13
AB Electronic Components Limited	14
AB Electronics Limited (in liquidation)	14
ABtest Limited	15
Aero Stanrew Group Limited (ordinary and preference shares) ^(a)	16
Aero Stanrew Limited	16
Automotive Electronic Systems Limited ^(a)	14
BI Technologies Limited ^(b)	14
Cable Realisations Limited (in liquidation)	14
Commendshaw Limited ^(b)	14
Controls Direct Limited ^(b)	14
Crystalate Electronics Limited	14
Dale Electric International Limited ^{(a),(b)}	14
Deltight Washers Limited ^(b)	14
Linton and Hirst Group Limited ^(b)	14
Midland Electronics Limited	14
MMG Linton and Hirst Limited ^(b)	14
New Chapel Electronics Limited	17
Nulectrohms Limited ^(b)	14
Rodco Limited (60% owned) ^{(a),(b)}	14
Roxspur Measurement & Control Limited	14
Semelab Limited	18
Sensit Limited ^(b)	14
The Brearley Group Limited ^(b)	14
TT Asia Holdings Limited	14
TT Automotive Electronics Limited ^(b)	14
TT Electronics Europe Limited ^{(a),(b)}	14
TT Electronics Group Holdings Limited ^(a)	14
TT Electronics Holdco Limited	14
TT Electronics Integrated Manufacturing Services Limited	15
TT Group Limited ^(b)	14
TT Power Solutions Limited ^(b)	14
TTE Trustees Limited ^{(a),(b)}	14
TTG Investments Limited ^(a)	14
TTG Nominees Limited ^{(a),(b)}	14
TTG Pension Trustees Limited ^{(a),(b)}	14
TTG Properties Limited ^(a)	14

Notes to the Company financial statements continued

14 Subsidiary undertakings continued

Name of subsidiary undertaking	Registered office/principal place of business
Welwyn Components Limited	19
Welwyn Electronics Limited ^(b)	14
Wolsey Comcare Limited ^(b)	14
AB Interconnect, Inc.	20
Apsco Holdings, Inc.	20
BI Technologies Corporation	20
Cletronics N.A. Inc.	21
International Resistive Company, Inc.	20
International Resistive Company of Texas, LLC	22
Optek Technology, Inc.	20
Shallcross, Inc.	20
TT Electronics, Inc.	20
TT Electronics Integrated Manufacturing Services, Inc.	23
TT Group Industries, Inc.	20

1	Newton Industrial Park, Christchurch, Barbados, West Indies
2	158-24 Hua Shan Road, Snd Suzhou, 215129, China
3	4 place Louis Armand, 75012 Paris, France
4	Max-Lehner-Strasse 31, 85354, Freising, Germany
5	Via Santa Redegonda N. 11, Milano, Italy
6	Lot 6.05, Level 6, KPMG tower, 8 First Avenue, Bandar Utama 47800 Petaling Jaya, Selangor, Darul Ehsan, Malaysia
7	Ave Rio Bravo 1551-a, Parque Industrial Rio Bravo, CD. Juarez Chihuahua, Mexico
8	Ave Circulo de la Amistad No.102, Parque Industrial Mexicali IV, Mexico
9	Remetea Mare, nr. 637, Olympian Park Timisoara, Hala 4, Partea B, DN6/E70, Timis County, 307350, Romania
10	2 Shenton Way, #18-01 SGX Centre 1, 068804, Singapore
11	60 avenue de l'Uma, La Soukra 2036, Tunisia
12	UA-03164 Kiev, Vul, Generala Naumova 23B, Ukraine
13	Abercynon, Mountain Ash, Rhondda Cynon Taff, CF45 4SF, Wales
14	Fourth Floor, St Andrews House, West Street, Woking, Surrey, GU21 6EB, England
15	Unit 1, Tregwilym Industrial Estate, Rogerstone, Newport, Gwent, NP10 9YA, Wales
16	Unit 1 Gratton Way, Roundswell Business Park, Barnstaple, Devon, EX31 3AR, England
17	London Road, Fairford, Gloucestershire, GL7 4DS, England
18	Coventry Road, Lutterworth, Leicestershire, LE17 4JB, England
19	Welwyn Electronics Park, Bedlington, Northumberland, NE22 7AA, England
20	Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, United States
21	CT Corporation System, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States
22	Corporation Service Company, 211 East 7th Street, Suite 620, Austin, TX 78701-3218, United States
23	CT Corporation System, 4400 Easton Commons Way, Suite 125, Columbus, OH43219, United States

(a) Shares held directly by TT Electronics plc

(b) Dormant UK subsidiary

Five-year record

£million (unless otherwise stated)	2017	2016 ¹	2015	2014	2013 ²
Revenue	360.0	332.7	509.9	524.3	532.2
Operating profit ³	24.3	20.6	21.7	29.2	30.8
Profit before taxation ³	22.0	16.1	19.2	27.6	30.1
Earnings ³	19.4	10.3	14.0	20.5	23.0
Earnings per share (p) ³	10.9	6.4	8.8	12.9	14.6
Dividends – paid and proposed	9.4	9.0	8.9	8.7	8.5
Dividend per share – paid and proposed (p)	5.8	5.6	5.5	5.5	5.4
Average number of shares in issue	161.7	162.2	159.2	158.3	157.6
Net funds/(debt)	47.0	(55.4)	(56.1)	(14.3)	26.9
Total equity	269.0	233.4	187.4	187.8	203.3

Notes

- (1) Results for 2016 have been re-presented to exclude discontinued operations.
- (2) Results for 2013 have been re-presented to exclude acquisition related items from underlying profit.
- (3) Operating profit, profit before taxation, earnings and earnings per share exclude the impact of restructuring costs, asset impairments and acquisition related costs.

Additional information

Alternative performance measure definitions

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

The Group uses the following alternative performance measures:

Underlying operating profit

Definition: Operating profit from continuing operations excluding the impacts of significant restructuring programmes, significant one-off asset impairments and business acquisition and divestment related activity.

Free cash flow

Definition: Total net cash flow from operating activities less total net cash flow from investing activities (excluding acquisitions and disposal proceeds) less interest paid.

Underlying earnings per share

Definition: 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 period. We have chosen EPS as a KPI as it is a standard metric to determine corporate profitability for shareholders. In addition, it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan – see further details on page 71.

Underlying effective tax rate

Definition: The tax charge adjusted to exclude items not included within underlying operating profit divided by underlying profit before tax, which is also adjusted to exclude the items not included within underlying operating profit.

Other definitions

Cash conversion percentage

Definition: Underlying operating cash flow post capex (underlying EBITDA less net capital expenditure, 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.

Return on invested capital percentage

Definition: Underlying operating profit for the preceding 12 month rolling period divided by monthly average invested capital for the preceding year. Invested capital is net assets excluding provisions, tax balances and financial assets and liabilities, including cash and borrowings. This measures how efficiently assets are utilised to generate returns with the target of exceeding the cost to hold the assets.

Operating margin percentage

Definition: Underlying operating profit divided by revenue.

R&D spend

Definition: R&D is defined as the cash spent on research and development activities expressed as a percentage of revenue for those divisions incurring R&D spend.

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.

Organic revenue/operating profit growth

Definition: The percentage change in revenue/operating profit from continuing Group operations in the current year from the prior year. The effects of currency movements, divestments and acquisitions made during the current or prior financial year have been removed. This KPI measures the underlying growth of the business.

Earnings per share (EPS)

Definition: EPS is calculated as 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. We have chosen EPS as a KPI as it is a standard metric to determine corporate profitability for shareholders. In addition, it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan – see further details on page 71.

Return on invested capital

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

Glossary

AGM	Annual General Meeting	KPI	Key Performance Indicator
ASIC	Application-Specific Integrated Circuit	LED	Light Emitting Diode
BE Inspired	a TT initiative to deliver improved employee performance	LIBOR	London Interbank Offered Rate
BE Lean	a TT initiative to improve operational efficiency	LLP	Limited liability partnership
BE TT	Build Expertise in TT	LTIP	Long Term Incentive Plan
CAGR	Compound Annual Growth Rate	MLP	Master Lean Practitioner
CEO	Chief Executive Officer	M&A	Mergers and Acquisitions
CFO	Chief Financial Officer	NED	Non-Executive Director
CGU	Cash Generating Unit	OEM	Original Equipment Manufacturer
CREST	Certificateless Registry for Electronic Share Transfer	PBT	Profit Before Tax
CSR	Corporate and Social Responsibility	PCB	Printed Circuit Board
DEFRA	Department for Environment, Food and Rural Affairs	PCBA	Printed Circuit Board Assembly
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation	PIE	Pension Increase Exchange
EBT	Employee Benefit Trust	R&D	Research and Development
EICC	Electronics Industry Citizenship Coalition	RBA	Responsible Business Alliance
ELMS	Electric Load Management System	RNS	Regulatory News Service
EMB	Executive Management Board	ROIC	Return on Invested Capital
EPS	Earnings Per Share or Electronic Power Steering (as the context requires)	RPI	Retail Price Index
EU	European Union	RSP	Restricted Share Plan
EVP	Executive Vice President	STEM	Science, Technology, Engineering and Mathematics
FADEC	Full Authority Digital Engine Control	the Board	The Board of Directors of TT Electronics plc
FRS	Financial Reporting Standards	the Code	UK Corporate Governance Code
FTSE	Financial Times Stock Exchange	the Company	TT Electronics plc
GBP	Pounds Sterling (£)	the Directors	The Directors of TT Electronics plc
GDP	Gross Domestic Product	the Group	TT Electronics plc and its subsidiaries
GMS	Global Manufacturing Solutions	TSR	Total Shareholder Return
HR	Human Resources	TS&C	Transportation Sensing and Control
HSE	Health Safety & Environmental	TT	TT Electronics plc
IAS	International Accounting Standards	UK	United Kingdom of Great Britain and Northern Ireland
IASB	International Accounting Standards Board	USA/US	United States of America
IFRS	International Financial Reporting Standards		
IT	Information Technology		

Shareholder information

Annual General Meeting

The Annual General Meeting will be held on 10 May 2018 at 11.30am at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD.

Results

Announcement of 2018 half year results – mid-August 2018.

Preliminary announcement of 2018 results – mid-March 2019.

Annual Report 2018 – to be posted mid-April 2019.

Dividends

For the year ending 31 December 2017, the Board has recommended increasing the final dividend to 4.05 pence per share. This, when combined with the interim dividend of 1.75 pence per share, gives an increased total dividend of 5.8 pence per share (2016: 5.6 pence per share). Payment of the final dividend will be made on 18 May 2018 to shareholders on the register on 27 April 2018.

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.

Notes

Notes

luminous

Consultancy, design and production
www.luminous.co.uk



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