tpgroup

Innovative Thought
Absolute Trust
Critical Technology

Annual Report 2018

TP Group is a systems engineering business working in the defence, intelligence & security, space and energy sectors.

Our specialist consultants and engineers, together with precision manufacturing facilities, deliver mission-critical systems and equipment which keeps our customers and the wider public working safely and securely.

Our customers trust us to find novel solutions that ensure the safety, reliability and performance of complex systems in the most challenging or arduous situations.

Innovative Thought

Engineering & Technology

The design, manufacturing and support of mission-critical systems.

Consulting & Programme Services

Advising clients on strategic problems and implementing technology-driven solutions.

Critical Technology

With global presence, proven field experience and a culture of innovative problem solving, TP Group is often the first choice for platform builders, integrators and users of both military and industrial systems.

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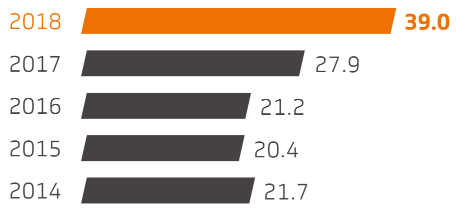
Group revenue up 40%
(2017: £27.9m)

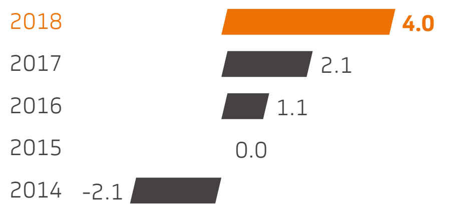
£39.0m



Note – 2017 values are restated to reflect the impact of IFRS 15, prior years are as originally reported, refer to note 2.1 to the financial statements for further detail.

Adjusted operating profit[1] up 85%
(2017: £2.1m)

£4.0m



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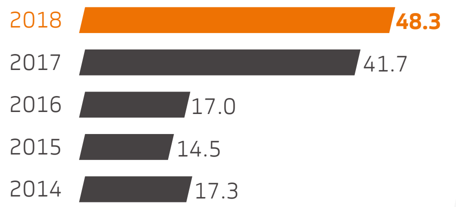
Group closing order book up 16%
(2017: £41.7m)

£48.3m



Note – 2017 order book is restated to reflect the impact of IFRS 15, prior years are as originally reported, refer to note 2.1 to the financial statements for further detail.

Revenue up 40% to £39.0m (2017: £27.9m)

- Efficient project execution ensured successful order conversion
- Added £4.6m revenues from Polaris Consulting acquisition

Adjusted operating profit[1] up 85% to £4.0m (2017: £2.1m)

- Operational focus on improving margins and delivery performance

Operating losses reduced to £nil (2017: £1.0m loss)

- Improved underlying profitability
- Increase in acquisition-related expenses (£0.4m) and further depreciation and amortisation (£0.5m) relating to investments in the business

Closing cash of £22.4m (2017: £21.9m)

- Strong working capital performance
- Cash outflow of £3m related to Westek acquisition
- £0.9m invested in business systems and infrastructure

Order intake £43.2m (2017: £44.7m)

- Another impressive year, in line with the exceptional prior year and well ahead of in-year revenue conversion

Group closing order book up 16% to £48.3m (2017: £41.7m)

- Good coverage across all parts of the Group
- Includes £2.4m of Westek order book

1. Adjusted operating profit is defined as operating loss adjusted to add back depreciation of property, plant and equipment and right-of-use assets, amortisation of intangible assets and impairment gains or losses on non-current assets, changes in fair value of contingent consideration, acquisition consideration accounted for as employment costs owing to on-going service conditions, any other acquisition-related charges, share based payment charges and non-operating costs. Non-operating costs are those items believed to be exceptional in nature by virtue of their size and or incidence. The directors of the Company believe this measure is more reflective of the underlying performance of the Group than equivalent GAAP measures. This is primarily due to the exclusion of non-cash items, such as share-based payments, impairment, depreciation and amortisation, as well as acquisition and non-operating costs. This provides shareholders and other users of the financial statements with the most representative year-on-year comparison of operating performance. This measure and the separate components remain consistent with 2017.

World class capabilities to deliver mission-critical equipment and systems

75 years

of engineering heritage and leveraging our unique knowledge, skills and experience

100,000

square feet of advanced manufacturing space

237

skilled and experienced staff

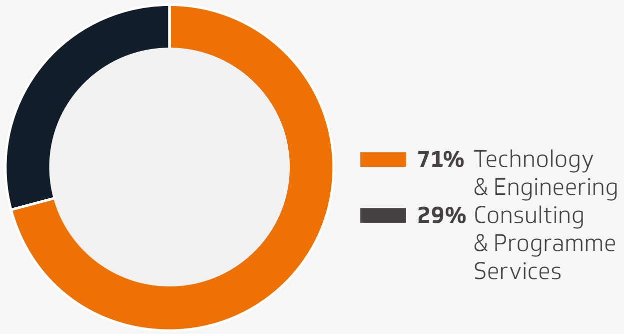
>30

countries delivered to

Our Mission
We work across national security and energy supply services that are critical to a safe and prosperous society. We provide services and equipment when critical systems are needed to ensure public and industry security and wellbeing.

Consulting & Programme Services

Advising clients on strategic problems and implementing technology-driven solutions

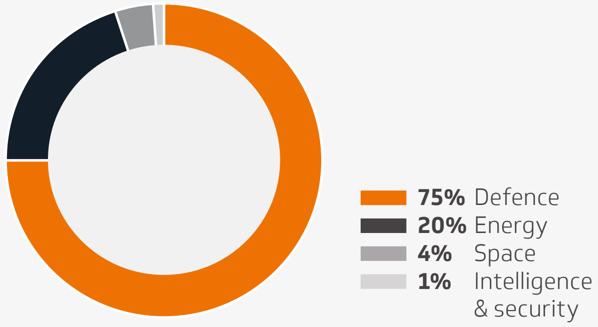


Technology & Engineering

The capability to design, manufacture and support mission-critical systems

Our Sectors

TP Group provides engineering and services where it matters most to our customers and their other stakeholders. We work on mission-critical and safety-critical solutions in these sectors.



Defence
Equipment packages and systems that are regarded as mission-critical for our customers. We advise on their justification and specification, then build, install and support through their operational lifetimes.

Energy
Static equipment packages that deliver lasting value to our customers. We conduct feasibility and front-end engineering studies to demonstrate value, then design, build, install and support systems that are at the heart of our customers' facilities.

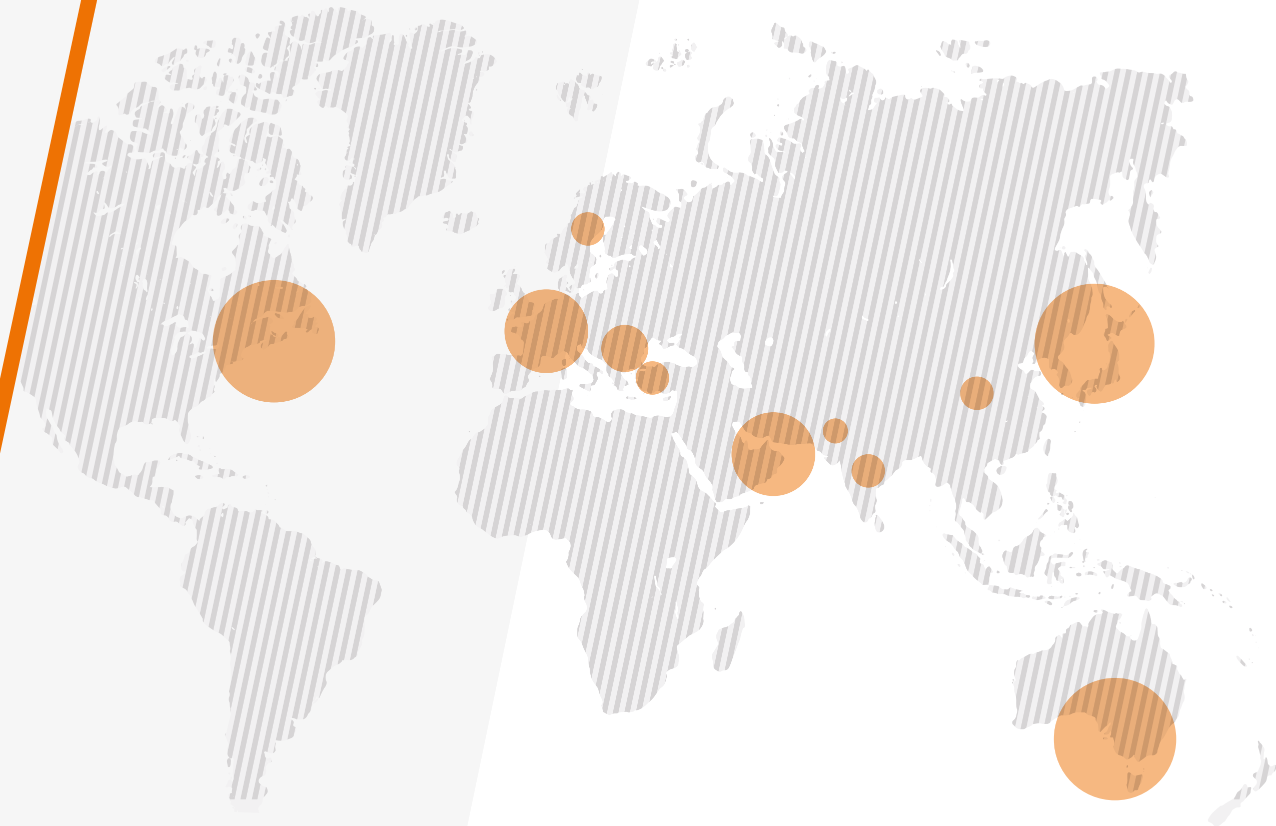
Space
Technical delivery and project support to systems that are critical to space missions that deliver environmental, security and military services worldwide.

Intelligence & Security
Innovation and capability to support the transmission, gathering, processing and interpretation of intelligence to support national and global security programmes.

Serving a global market

International reach & global partnerships

The Group has established long term relationships with international customers through its work on defence equipment and was able to secure three further contracts in Europe, the Middle East and South-East Asia worth in aggregate more than £3.5 million in 2018.



A robust and increasingly international business.

This is my third Annual Report as Chairman of TP Group. I am pleased to report that the strategy we set out is now delivering year-on-year sustainable growth. Our focus has been to balance carefully between delivering expectations in the near-term whilst building a robust and increasingly international business. This will equip us well for the opportunities ahead and provide greater security in the current economic climate.

Our strategy is focused on our core strengths – providing the best in the development and delivery of highly complex, high value, low volume equipment and systems that are critical to our customers’ activities.

We have maintained the growth trend of recent years to deliver another strong performance in 2018, which reflects continued progress by the leadership team and the efforts of the wider staff. This approach and these results give us confidence that the business is well positioned to withstand, or even perhaps take advantage of the current Brexit turbulence.

2018 performance
I am pleased to report a 40% increase in revenue to £39.0m (2017: £27.9m) and an increase in adjusted operating profit of 85% to £4.0m (2017: £2.1m) and operating losses reduced to nil (2017: £1.0m loss). The Group closed the year with a cash balance of £22.4m (2017: £21.9m) generating a net inflow of £0.5m, even after using £3.0m cash to pay for acquisitions. These results are all at or ahead of market expectations, driven by an order intake of £43.2m (2017: £44.7m). Order intake in the year was 11% above revenue, which led to a closing order book 16% higher than last year at £48.3m (2017: £41.7m), putting us in a very good position to continue our growth trajectory into 2019.

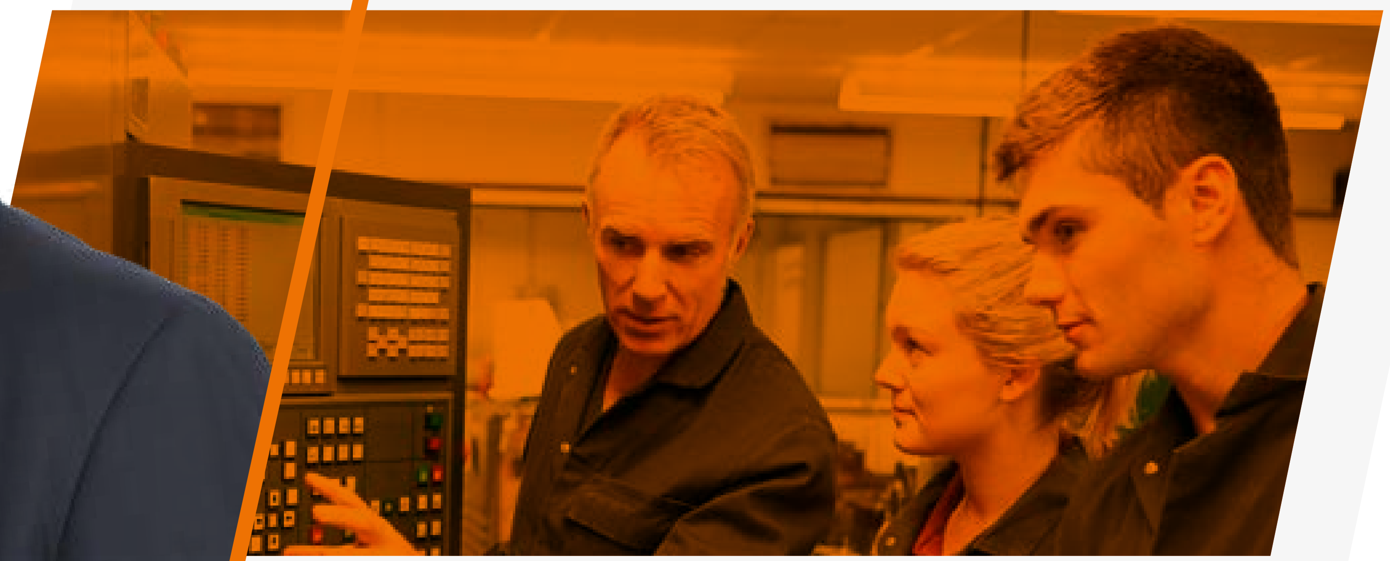
Building capability and reach
Throughout 2018 we have invested in our facilities and people to strengthen our offering to key customers and work with them more effectively. We invested in factory equipment, business systems and talented people so that we can deliver on our strategic priorities, to deliver the best high-integrity systems and equipment to our excellent customer community.

We have also added breadth in products, skills and customers via acquisition. Firstly, we completed the integration of Polaris Consulting Ltd, and then in November we acquired Westek Technology Ltd.

These transactions have added to our services and equipment propositions, brought talented and like-minded people into the business and gained access to new customers both in the UK and overseas.

During the year we have put considerable effort into developing new international relationships. This not only enables us to access new technologies and capabilities but also to open new markets for our existing capabilities.

Reclassification
The Group was reclassified under the FTSE sector definitions from Industrial Engineering (2750) to Aerospace & Defence (2710). This became effective on 24 December 2018. The new classification is more closely aligned with the Group’s operational footprint and better reflects our business moving forward as the majority of our strategic focus, revenue and profits is derived from clients across the Defence, Intelligence & Security and Space sectors.



“A powerful blend of talent, technologies and the right management team to generate further value for shareholders.”

Board and governance
The Board has worked with a good balance of support and challenge, applying its strengths and insights to support the Group as it implemented the growth strategy.

In February, Simon Kings stepped down as an executive director and left the Group. The Board was restructured, and the Group made two appointments to the senior management team to support business development and key account management activities.

As an established company on AIM, TP Group is committed to high standards of governance. The Quoted Companies Alliance (QCA) Corporate Governance Code was adopted by the Company in line with AIM requirements on 28 September 2018. Work continues to comply as fully as possible with the principles and provisions contained therein. We operate a robust framework of systems and controls to maintain high standards throughout the Company and more details can be found in the Directors’ Report.

The Board believes that effective corporate governance assists us in the delivery of our corporate strategy, the generation of sustainable shareholder value and the safeguarding of all our stakeholders’ long-term interests.

Our people
I am pleased to note that as we have grown, we have been able to attract talented people at all levels of the business to help us on this path, and this says a lot about the attractiveness of the Group to our range of stakeholders.

On behalf of the Board, I would like to thank our employees for their hard work and dedication as well as our suppliers, business partners and shareholders for their continued support over the last year.

Building for the future
We continue to build on the strong foundations created in 2018 and before as we continue to position the business for future success. I remain confident that we have the right strategy in terms of competitive propositions and high-value customers, with investment and acquisition plans to deliver on a wider international stage. I believe we have a powerful blend of talent, technologies and the right management team to generate further value for shareholders in 2019.

Andrew McCree
Non-Executive Chairman

Governance Highlights / QCA Code

Recent changes to the AIM Rules have led the Board to adopt the 2018 Quoted Companies Alliance Corporate Governance Code (QCA Code) for Small and Mid-sized Quoted Companies as the basis of the Group’s governance framework.

The QCA Code’s principles provide a framework that the Group is working to fulfil:

01
Deliver growth
- Establish a strategy and business model which promotes long-term value for shareholders
- Seek to understand and meet shareholder needs and expectations
- Take into account wider stakeholder and social responsibilities and their implications for long-term success
- Embed effective risk management, considering both opportunities and threats, throughout the organisation

02
Maintain a dynamic management framework
- Maintain the Board as a well-functioning, balanced team led by the chair
- Ensure that between them, the directors have the necessary up-to-date experience, skills and capabilities
- Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement
- Promote a corporate culture that is based on ethical values and behaviours
- Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

03
Build trust
- Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

High-integrity capabilities and expertise

Chief Executive Officer, Phil Cartmell explains why TP Group has great future prospects...

We have built our capabilities, invested in our teams and facilities to capitalise on high-value opportunities that we are well-placed to deliver.

TP Group has grown year-on-year since 2010. Our growth strategy has focused on five priorities that the Group follows – excellent technologies and services; the best customer relationships; investing in world-class people and equipment; partnering or acquiring to fill gaps; and playing more actively on the international stage.

The business has improved order capture and order book cover for future revenues that reflects our reputation and presence in the markets we serve. From this solid foundation, we have ambitious plans and a clear pathway to future value as a global player in defence, intelligence & security, space and energy markets.

“We have a long-term growth plan which will deliver increasing profit whilst investing in people, precision manufacturing and business technologies to equip us well for what lies ahead.”

01 / Rare combination of business capabilities

A blend of consultancy, system development and implementation, plus design, build and support through long-term operational lives. This is a rare mix that ensures TP Group is better placed than others to support end-users.

02 / Market leading propositions

TP Group has become the go-to provider in many markets and will protect that position through close relationships with customers to ensure continuous development of our capabilities.

03 / Trusted supplier of mission-critical equipment and systems

We have built long-lasting supply relationships with our major customers. We believe that they trust our capabilities to keep them at the leading edge of performance.

04 / Secure long-term programmes

TP Group has become the embedded supplier on a number of key equipment programmes and we believe that through continuous customer satisfaction we will remain participants in these valuable activities.

05 / High barriers to entry for competitors

Our established presence in key programmes, aligned with our constant pursuit of customer satisfaction, makes it difficult for others to intrude on our activities.

06 / Extensive and valuable major account relationships

We have always believed that a limited number of good quality relationships are easier to satisfy, support and protect. We have built these over many years and are committed to extracting the maximum reasonable value from each of them.

07 / Global outreach leading to global capability

As a UK-based business we have been very successful in serving a global customer base. Our goal is to extend that reach and to make it easier to support global customers through a wider spread of capability.

08 / Experienced and proven leadership team

Our Board and senior team have extensive experience of a variety of business challenges, preparing them for what may lie ahead for TP Group. They have proven themselves through recent growth challenges and have built a capability to drive the Group forward.

09 / Cash generative

We have proved over recent years that we can manage our operations to deliver on time and within budget on major equipment programmes and systems management projects. This culture and approach has led to healthy cash performance which is expected to continue.

Significant opportunities in high-value markets

Our sectors

- Defence submarine platforms
- Land-based defence platforms
- Surface naval platforms
- Space missions & operations
- Downstream petrochemicals
- Nuclear power

TP Group are system engineers working in global defence, intelligence & security, space and energy sectors.

Market / contractor landscape

The Group's main markets typically operate with multi-layered supply chains. End-users such as major energy companies, national defence forces or governments buy large scale equipment or systems to be supplied by prime contractors or integrators acting across many disciplines, who in turn source from an array of sub-contractors and smaller companies.

For new-build projects, TP Group acts as a second-tier supplier, working with the prime contractor on a specific section of the ship, submarine, plant or platform. Alternatively, we advise end-users on the commercial, technical or project aspects of whatever they are buying. We also work with the end-users once the new-build project is completed. In this case we support them for performance management, maintenance, repair and in some cases decommissioning.

Regional analysis

In the defence and security sectors, we are seeing increasing interest from various defence related parties in the United States and the Asia-Pacific regions arising from geo-political responses to Russia and China converting into the updating of defence capabilities by affected nations.

The slowly rising oil price has boosted confidence in the energy sector in the Middle East with many large facility investments coming to maturity. Europe has seen continuity of existing programmes and is expected to remain steady until the Brexit question is resolved and the future landscape becomes clearer.

Non-UK revenues

Growth trends

Primary trend	Impact	Response
Defence submarine platforms The Asia-Pacific (APAC) region is likely to lead the global submarine market over at least the next five years. Nations in the region are investing in submarines and other underwater warfare vehicles in response to China's rapid modernisation of its fleet. Submarines typically form the centrepiece of naval fleets. They are flexible, multi-operational and can complement other resources in mission planning. The global market fell dramatically at the end of the Cold War but has since recovered and continues to grow as major powers update their fleets and developing countries strengthen their capabilities, particularly in APAC.	Around 40% of investment is expected to be in nuclear powered hunter-killer submarines. Non-nuclear submarines are more numerous and seek longer submerged times to enhance stealth, and to improve speed, efficiency, and have longer endurance capabilities.	TP Group is working with partners on new carbon capture methods to improve breathable atmospheres with enhanced efficiency to support longer submerged times, whilst also capitalising on our leadership in quiet systems for this purpose.
Land-based defence platforms The requirements for military vehicles have changed fundamentally since the Cold War and have extended to include more focus on flexibility, connectivity and in some cases autonomy as well as the traditional concepts of protection, firepower and mobility. Update programmes have been commissioned all around the world to meet the challenges of the perceived future battlespace.	Connectivity is a major part of the flexible front-line force. This means more communications and IT facilities distributed across the vehicles so that local situational awareness can be joined up in a command and control system that can direct battlefield operations very quickly and accurately.	TP Group has been working closely with the British Army HQ on their integrated communications system, and through the acquisition of Westek Technology Ltd., now has the means to support equipment supply to major armoured vehicle programmes and work on a truly integrated supply.
Surface naval platforms Shipbuilding has become a global business with constrained budgets forcing new partnership arrangements in the supply chain. The Royal Navy's Type 31e frigate is an example where additional export sales are expected to drive down the per-vessel cost and provide a route to a wider market for the successful contractors.	We expect systems and subsystems to become increasingly modular to allow various configurations to be built by different yards according to the end customers' operational needs. Proven modules will reduce the risk for the user and so opportunities will arise for companies like TP Group to gain a market lead in certain modular systems as we have done for atmosphere management on bard submarines.	We have been working to build capability in specialist software systems for platform management and combat management on board this type of vessel, alongside partnerships with technology specialists to apply our systems engineering expertise on packaged equipment that will be required on every vessel built.
Space missions & operations Whilst individual mission volumes remain low, and complexity and costs are high, the market is growing as technologies become more accessible, driving new economic models for access to space. Demand for navigation, communication and observation services is accelerating and new entrants like SpaceX are joining the human space flight market.	More missions are planned, particularly in the accessible markets of the United States and Europe. Small private operators are joining the large agencies and niche technology providers are lining up alongside the traditional major players like Lockheed Martin or Astrium.	TP Group is already supporting satellite mission development for defence, intelligence and security purposes, and is actively exploring partnerships and other opportunities in the United States and Europe to develop our capability further.
Downstream petrochemicals The industry is recovering from the last few years of weak prices, enforced efficiency drives and low capital investment. There is now evidence of supply-side pressure that is leading energy majors to invest in capacity and new facilities whist boosting productivity in existing assets.	New investment will be smarter than in past generations and so digital transformation alongside new business models for operational partnerships will emerge. The prime contractors will remain powerful but will have to work smarter in the next few years.	TP Group has, in recent years, repositioned its' offering to this sector, moving up from commodity heat exchanger supply towards more added value static equipment packages. The emerging capabilities in the Group for digital transformation and Artificial Intelligence ("AI") are expected to make an increasing contribution in the sector.
Nuclear power The UK nuclear programme hit a setback with the recent withdrawal of Hitachi from the planned sites ate Wylfa and Oldbury. Nuclear power remains part of the government's strategic energy mix but how that is delivered is again back under review. Decommissioning remains a key area of activity with high demands on quality and reliability in the supply chain.	The growing focus on small modular reactors will push the industry forward alongside the focus on decommissioning in both the civil and defence sectors.	TP Group has built a long-term contracted position on one of the remaining nuclear power programmes and will use this, with the advanced manufacturing facilities and world-class quality assurance systems at the Manchester facility, as a platform to apply similar quality and engineering principles to the decommissioning requirement.

Investing in capability & growth

We aim to be the first-choice company and a trusted partner when large organisations need complex equipment or systems to achieve their goals.

Our strategy has evolved to drive profitable growth and deliver long-term financial performance. It is focused on our core strengths – we are at our best in the development and delivery of highly complex, high value, low volume equipment and systems that are critical to our customers' activities.

	Our strategic objectives		2018 priorities	2018 achievements	KPIs	Principal Risks	Forward view: 2019 and beyond
Our focus	**Sustainable competitive leadership in complex, mission-critical systems**	We choose to work on complex, mission-critical systems that are low volume, high value and where innovation, skill and experience are highly valued by our customers and barriers to entry are high. Within this space, we aim to outperform our peers, staying ahead of our competition and enjoying long-term demand for our services.	Prioritise key competitive leadership areas Understand market gaps Develop technology and capability roadmap	Awarded research funding to develop AI systems Delivered prototype advanced CO_2 capture unit	£1m **external funding awarded to continue existing AI research**	Brexit Competitor capabilities Key employees	New solutions in CO_2 capture and management, H_2 generation, storage and use Adoption of AI in more applications and as a component of wider solutions Emerging propositions in the space sector
Our focus	**Drive value from excellent relationships with major customers**	We aim to work with a limited number of consistent, high-value, long term customers, whereby we have a detailed understanding of their business, we have excellent visibility of future needs and can minimise competitive threat in a trusted mutually-beneficial relationship .	Identify current and potential key accounts Drive focus on delivery excellence Align business development to key account strategies	Contract renewals with Army HQ and SE Asia submarine programme Five-year agreement with Naval Group	67% **of revenue drawn from top six customers**	Market conditions Government policies Contract delivery Key employees Key assets Cybersecurity	Reinforcing delivery quality disciplines Improving supplier performance ratings on key account reviews
Growth drivers	**Invest in best-in-class operating capabilities and technologies**	We will ensure that wherever possible we have the best and most advanced facilities, equipment, tools, people, business systems and methods. This will drive operational efficiencies, improve decision making and our competitive advantage.	Understand the gaps in capability, processes and technologies Plan and execute rapidly	Advanced Manufacturing Centre ("AMC") formally opened in Manchester. ERP software went live across the business. Strengthened the EMT with recruitment of Senior VPs for Corporate Development and Key Account Management.	>£3m **invested in equipment and systems in last 3 years**	Regulatory burdens Key assets Key employees Liquidity Credit	Skills and capabilities to develop future technologies, solutions and propositions to support competitive position
Growth drivers	**Supplement organic growth with suitable acquisitions and partnerships**	We will pursue engagement with third parties to extend our technical scope, geographic and market reach, capacity and opportunities. These engagements may be by acquisition or by partnership where suitable mutual benefit arrangements are available.	Define the future capability picture Identify and evaluate candidate companies Refine commercial and integration processes	Integration of Polaris Partnership with Micropore Acquisition of Westek	4 **companies acquired in last 2 years**	Acquisition integration Liquidity Credit Foreign currency	Evaluating opportunities in both services and engineering capabilities across multiple sectors Focus on building a joined-up and balanced business
Desired outcome	**Expand our geographic reach in customers and capabilities**	We will seek to expand beyond the limits of the UK to address global opportunities, and to add local delivery capability that is technically, economically or operationally advantageous to our business needs and those of our international customers.	Open channels to major international programmes Find potential technology or capability partners with presence in desired countries	Micropore partnership in USA Naval Group framework in France Improved presence in USA, Australia, Europe and Middle East	£5.2m **non-UK revenues**	Brexit Market conditions Government policies Key employees Foreign currency	Building and strengthening connections in the United States Development in Australia for future programmes Active support of representative agents in France, UAE, Asia and elsewhere

Delivering sustainable stakeholder value

Value creation

We adopt a whole-life model that allows us to take concepts and ideas and turn them into systems and equipment that are at the heart of our customers' activities.

The value in that process is seen by the customer and their stakeholders – better intelligence for their decision making, better environments that allow their staff to work more efficiently and for longer, and equipment that works safely and reliably within their facility. We create intrinsic value for our customers that they have embraced through long term relationships with our team and our support.

Developing trust in partnerships

Project management

The most current suite of project, programme and portfolio management tools – known in the Group as P3M.

Consultancy

Specialist advice and guidance throughout the project's life to ensure technical and financial success.

Design

Integrated software tools to analyse and design components and systems.

Manufacturing

Closely integrated with design and using the most advanced precision equipment to produce highly accurate equipment.

Coding

Using a range of advanced software tools to build systems that work in the real world.

Delivery

Thorough testing and assurance with on-site commissioning to hand over a fully functioning and optimised system.

Support

Living with the equipment or system and its users to ensure long-term safe, reliable and high-performance operation.

Integration

We work in partnership with specialists to build, deliver and operate the most advanced systems or equipment that customers rely upon for their mission's success.

Our competitive advantage

Drawing on our strengths, we can deliver mission-critical equipment in the world's most challenging environments.

Experienced management team
Our senior team have extensive experience of our market sectors, technologies and the business challenges they hold. They have proven themselves through the recent growth phase and have the capability to drive the Group forward.

Rare knowledge and expertise
We have a rare blend of consultancy, system development and implementation skills, plus design, build and support capability through long-term operational lives. This mix of expertise means that TP Group is well placed to support end-users better than most.

Long term customer relationships
We have built long-lasting supply relationships with our major customers, who trust in our capabilities to keep them at the leading edge of performance.

Highly skilled, forward-thinking employees
We have invested in our team of highly regarded engineers, committed consultants and technicians who deliver reliable quality and innovation in equal measure.

Embedded supplier partnerships
We work as system integrators and so work with niche technology and service providers to work alongside us for shared benefit.

Well-established routes to market
TP Group has become the embedded supplier on key equipment programmes and we believe that through continuous customer satisfaction we will remain participants in these valuable activities.

A rich heritage
We have 75 years of engineering heritage and can apply our accumulated knowledge, skills and experience for our customers' benefit.

Third party technology
We actively seek advanced technology partners to work alongside us. It gives us a wider technology base and provides them with a proven route to market for their advanced ideas.

We continue to invest in the growth of our business and remain excited by the global market opportunities

"We now have a business of significant scale and international reach."

Business performance

We delivered a strong performance in 2018 and find ourselves in an excellent position as we look at the business going forward. We achieved first-rate growth in our three key measures – the order book rose 16%, revenue increased 40% and adjusted operating profit grew by 85%. Furthermore, operating loss reduced to nil from a loss of £1.0m in 2017. All of this was delivered whilst integrating one corporate acquisition, completing another and investing in our capability and technology for the road ahead.

I am particularly pleased that the Group has also achieved a strong cash flow performance, a fundamental KPI for the business, with cash increasing by £0.5m to £22.4m.

With strong revenue growth and cash generation, we were able to balance profitability and investment. We are still working on our long-term growth plan which will deliver increasing profit in line with market expectations whilst investing in people, precision manufacturing and business technologies that equip us well for what lies ahead.

This year's results, more than ever, show how the Group is well placed to succeed on multiple fronts operationally, whilst working hard behind the scenes to build an exciting future.

We built upon our reputation, relationships and excellent offerings in our markets to drive order intake well ahead of revenue which ensures our continuing growth.

Further details on our financial performance are covered in the Group Chief Financial Officer's report.

Competitive leadership

TP Group has an enviable position as a supplier of high-integrity packaged equipment. These are low-volume, high-value projects where we are trusted for our expertise, experience and innovation. This was a deliberate choice and the foundation of our strategy that places us at the premium end of the markets we serve.

An emerging technological challenge in certain defence platforms is for quiet operations, and TP Group's engineers have always had this high on their priority lists. Our systems are among the quietest in the world at present and we are working with our prime contracting partners to improve this even further.

Part of our acquisition strategy is to seek out the next wave of leading technologies to build future competitive advantage. For example, Polaris has a small team working on Artificial Intelligence systems with some very innovative ideas. We recognised the potential in this area and invested to build critical mass in this team. In October, Polaris was awarded almost £1 million pounds of MoD funding to continue this development as leaders of a consortium including Thales and Exeter University.

Major customers

We are very aware that customer trust and loyalty is a pillar of our competitive advantage and hence our strategy. We have grown beyond our UK heritage and this year signed a five-year framework agreement with Naval Group that covers both submarine and surface ships. That agreement has already yielded a £2 million contract for advanced equipment. One of our key metrics is the number of accounts that generate more than £1 million in annual revenue. This year, six such organisations together accounted for 67% of our revenue. Our goal is to take other existing accounts and develop them in this way. David Lomax joined us from BAE Systems, one of our existing major accounts, to lead this initiative and will benefit the Group by applying his experience from the buy-side of such relationships. He will help us to strengthen our links with companies like TKMS and Baker Hughes GE, with the latter awarding a follow-on £6.4 million contract just after the year-end, that reflects very positively on the work we have done on the original contract and the potential from this relationship.

Investing in capability and technology

Our plan throughout the year was to invest to build a business for the future. We continued to invest in precision manufacturing in Manchester and formally opened the Advanced Manufacturing Centre in February 2018. This facility differentiates us from our peers in UK manufacturing, and creates a competitive advantage to succeed in demanding environments like nuclear fabrication. The manufacturing leadership has also committed to continuous improvement through staff training and a workplace organisation approach known as Five-S that has improved operational efficiencies in both locations.

Quality systems are also key to our competitive advantage and the Group has committed significant effort and investment to ensure compliance with GDPR and the primary standards for quality, environment and health and safety. We are also working with market-specific bodies to demonstrate our commitment to performance through initiatives such as Fit4Nuclear. We were an early subscriber to this initiative and continue to support its evolution.

Work has continued throughout the year to adopt Group-wide business systems that will drive operational efficiency and allow us to compete better on a global scale as a joined-up business. We have already benefited from the Group-wide financial system that became fully operational this year, and great progress has been made on the Professional Services Management System and Group ERP and CRM systems. The result is a business that is better informed, better connected and able to grow as we build or acquire new capability and new customers.

People

Alongside our investment in advanced facilities and business technologies, we are also investing in people. New roles have been created as we have grown, and we have worked hard on staff development programmes across the Group. A Group-wide Core Values programme was also launched and rolled out to all staff early this year.

Acquisitions and partnerships

Since the fundraising in July 2017, we have completed two acquisitions and have been actively reviewing other opportunities to build our capability, geographic reach and customer community. During 2018, we integrated Polaris into the CaPS business stream and benefited greatly from their cost engineering skills becoming part of our portfolio of services.

In November 2018 we acquired, for and initial consideration of £3.0m, Westek Technology Ltd. This is consistent with our overall business approach, because they deliver packaged equipment as we do, and add new major customers for the Group who build aircraft and land vehicle platforms. They also bring significant electronic design and packaging experience that will add to the existing work we do on control system cabinets.

In addition to reviewing acquisition opportunities, we have also worked on developing a number of strategic commercial and technological partnerships. These often involve international companies where we can form a technical alignment that builds a stronger joint proposition which provides local access to markets and customers in the UK and in the partners' locations.

One example is the link with Micropore Inc. in the United States. We have collaborated to produce new enclosures for their carbon dioxide removal materials that will be commercially available this year, and made a joint proposition to the MoD that was rewarded with a £1.2m contract just after the year-end. We are also working on other relationships in Europe and the United States.

Geographic expansion
TP Group has operated from a UK base and delivered a consistent value of export business in recent years. As we grow, we need to take steps to build on that heritage and grow our international presence. We have established relationships in France, Germany, Australia, the Middle East and South East Asia, and it has become clear this year that our UK-based precision engineering capability is well regarded in the global market.

During 2018, we increased our overseas account management and business development activity through a combination of direct sales and local agents or partners who extend our reach in specific territories. Business development meetings have been carried out in the United States, Australia, the UAE and South East Asia, and we are confident of winning additional business from these activities.

Outlook
TP Group is stronger and strategically better placed today than when we delivered our strategic milestone of break-even in 2015.

Since then, three acquisitions and substantial investment for organic growth have created a global consulting and systems engineering Group. There is more to come in this area and I will continue to update all stakeholders as initiatives mature.

We now have a business of significant scale and international reach. This too will grow as we enter the next phase of our plan and engage more actively with customers and partners overseas.

We have a proven executive management team and have built a strong team of operational leaders with the experience and bandwidth to exploit market opportunities to the full and deliver efficiently and carefully under the Group strategy. With these features, I believe the Group is well-positioned to capitalise on the substantial opportunities in our markets in line with our strategic objectives and deliver another good year of progress.

Phil Cartmell
Chief Executive Officer

2019 initiatives

To achieve our strategic ambitions, TP Group is committed to some key themes.

Find and develop high value opportunities

We are at our best working on highly complex and challenging projects. These tend to be high in value, and when done well offer us a lot of potential for high returns.

Anticipate and serve customers' needs

By being closer to our customers we can try to be one step ahead. That places us ahead of our competition and ahead of the requirement, so we can respond in the most considered and effective way possible.

Build on our competitive advantages

We have developed strong positions in a number of niche areas. We will continue to innovate and develop and so take the lead as new opportunities emerge.

Collaborate and deliver

As the Group has grown, we have found complementary skills and resources that can be joined together. This helps us to serve our customers seamlessly and economically and drives innovative thinking as experiences are shared and challenges met.

Core values

TP Group has adopted a set of core values that we share and promote to all our staff to underpin behaviours and beliefs. They enable our people to deliver outstanding performance proudly. It's not just about the projects we deliver but how we deliver them.

Our six core values are:

01 Achieve together

Thrive on knowledge sharing, helping each other and delivering projects as a team

02 Embrace responsibility

Take responsibility for our own work. Trust our people to deliver their projects and have ownership in what they do

03 Strive for excellence

Constantly strive to achieve the highest standards in our work

04 Build unity

Work cohesively with our colleagues, customers and partners to build strong and lasting relationships

05 Challenge ourselves

Challenge ourselves and our people to develop and grow. To learn new things and to always seek to improve what we do

06 Have integrity in all that we do

Always conduct our business fairly, with honesty and transparency

These values are becoming a way of life for everyone at TP Group. They are the bond that joins us together and are part of the reasons our customers will choose us to deliver for them.

Our 2018 strategic highlights

Case Study: Finding and developing high value opportunities

In 2016, the Manchester management team decided to pursue more complex opportunities with higher added-value. Nuclear grade heat exchangers typically use sea-water as a fluid and so titanium is a common material but is more difficult to work with in many ways. These challenging characteristics reduce competition and lead to higher value projects.

Early opportunities were challenging and taught many lessons, until in late 2016 the team was successful in presenting a manufacturing process and investment plan that convinced GE Oil & Gas to award a contract to build condensers for a nuclear power system.

Over £2 million was invested in the facility with new equipment, staff, training, processes and partners. The Advanced Manufacturing Centre was opened in February 2018 and is now active delivering this project and other high-precision work for a range of new customers.

The strategy developed through very close attention to the customer needs and delivery to the highest possible standards. In early 2019 the site's evolution into a world-class manufacturing hub for critical equipment in the energy and defence sectors was rewarded with a follow-on contract for additional units worth £6.4 million that will keep the facility busy for the next four years.

Case Study: Anticipating and serving customer needs

TP Group consultants are often engaged as a "customer friend" in complex procurement or system implementation projects. This means extending the customer's knowledge and adding processes and resources that the customer doesn't have to ensure a successful project delivery. In short, we take away much of the customer's problem and get on with the job in hand.

An initial contract to provide independent technical support to the Army HQ on the £3.2 billion Land Environment Tactical Communications and Information Systems (LE TacCIS) programme was awarded in October 2016. This provided skills in Systems Engineering, Project and Programme Management and Business Analysis that were not available within the Army's own resources.

The embedded team provided insight throughout the programme across the various layers and components to build a performance structure that was commended as an "excellent exemplar of good practice".

In this role, our consultants are best placed to see what's coming and prepare for it. This was recognised as being so valuable to the customer that in April 2018 we were awarded an extension to the contract worth up to £2.3 million over 2 years.

Case Study:
Build on our competitive advantages

TP Group has built a leading position as system engineers for complex, mission-critical equipment on submarine platforms. The strategic plan aims to take that competitive strength and extend it into new markets, systems or platforms.

The opportunity to acquire Westek Technology Ltd fitted that plan excellently. Westek systems are complex IT and data equipment that are configured and built to withstand demanding use in very harsh environments yet give reliable high performance no matter what is thrown at them.

The parallels between this and our other system engineering activities were clear, yet the applications and the market sectors they are used in were quite different. Through the acquisition and the resulting integration of the businesses we have discovered that the technical and business philosophies are indeed similar but both companies can add value to the other. Westek has a customer base and history in surface ships, land and air platforms. TP Group has customer contact all around the world, and the resources to push the business forward on multiple fronts. Together this is a powerful proposition with a lot of potential.

This greater competitive advantage led to the award of a contract for £0.75 million from a UAE customer, more than 20% of their prior year's revenue and an illustration of their competitive position in global markets.

Case Study:
Collaborate and deliver

Collaboration is key to our success, both internally across the Group and externally with partners, suppliers and customers.

When we acquired two companies from the Wellman Group in 2012, they were independent operators with no cross-over between their two sites. We rebranded them to become TPG Maritime and TPG Engineering to begin the harmonisation and invested in both sites to focus on their strengths whilst supporting each other on customer deliveries. Fabricated sections of defence equipment packages are now produced in Manchester for assembly in Portsmouth under the integrated Technology and Engineering business stream umbrella. Quality assurance remains in-house under a single management system and costs are reduced as a consequence.

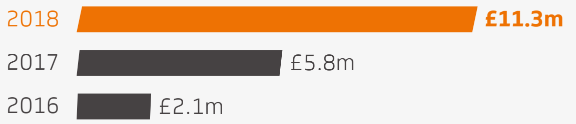
We also collaborate externally. Early in 2018 we signed a partnership agreement with Micropore Inc, an American developer of carbon dioxide adsorbent systems used in rebreathing and life support applications. The agreement allowed TP Group to act as Micropore's preferred equipment manufacturing partner in the maritime sector and work together to pursue opportunities. Since the agreement the team has successfully demonstrated a prototype small system package using Micropore's ExtendAir® adsorbent technology and signed a £1.2 million contract with the MoD to provide Extendair® Lithium Hydroxide Curtains for management of localised carbon dioxide contamination on board submarines.

Consulting & Programme Services (CaPS)

TP Group's consultants enable the transformation and evolution of our clients' systems and operations to meet strategic objectives and business vision. We use well-established systems engineering and project management principles to consider the system holistically and optimise both the technical system and its practical implementation.

Our consultants bring domain-leading knowledge, skills and experience to work within client teams or take full responsibility for the delivery of outcomes.

CaPS business growth trend



Note – 2017 revenues are restated to reflect the impact of IFRS 15, prior years are as originally reported, refer to note 2.1 to the financial statements for further details

Business performance

Revenue

£11.3m

+95% (2017: £5.8m)

Adjusted operating profit

£0.2m

(2017: £0.8m loss)

Operating loss

£0.5m

(2017: £1.2m)

Closing order book

£6.0m

+212% (2017: £1.9 m)

2018 was a year of accelerated performance for the CaPS business unit. It achieved critical mass and established a reputation with its customers that was rewarded with strong renewal business, a critical feature of this business model, and new order capture. This was achieved through the combination of organic growth and the addition of Polaris which delivered an improvement of £1million in adjusted operating profit.

Building on strong relationships

Our team has been working with Army HQ since 2016 and has extended this work to provide a range of customer services including management support of the programme, benefits, schedule, stakeholders, dependencies and risk management as part of an overall transformational change. This grew with the award of a £1.2m contract in 2018 with the potential for follow-on work of similar value.

Creative commercial methods

TP Group founded the Enterprise Technical Alliance (ETA) to deliver a simple contracting mechanism for the MoD to engage with a group of Small/Medium Enterprises (SMEs) for specialist, agile and responsive support to major programmes.

The ETA was selected as part of the Ministry's Submarine Enduring Naval Design Partnering where we can provide early phase submarine design and technology studies, through-life technology management studies and support for submarines, systems and equipment.

This provides a valuable business stream and builds our reputation, presence and profile for future programmes where we can apply our innovation and technical capability.

Innovative technical development

Following the Polaris acquisition, the Group has invested to build their team developing advanced Artificial Intelligence solutions. They were recognised with £0.9m of government funding to work with prime contractors and academic institutions on the development of autonomous navigation systems for future unmanned naval missions.

Outlook

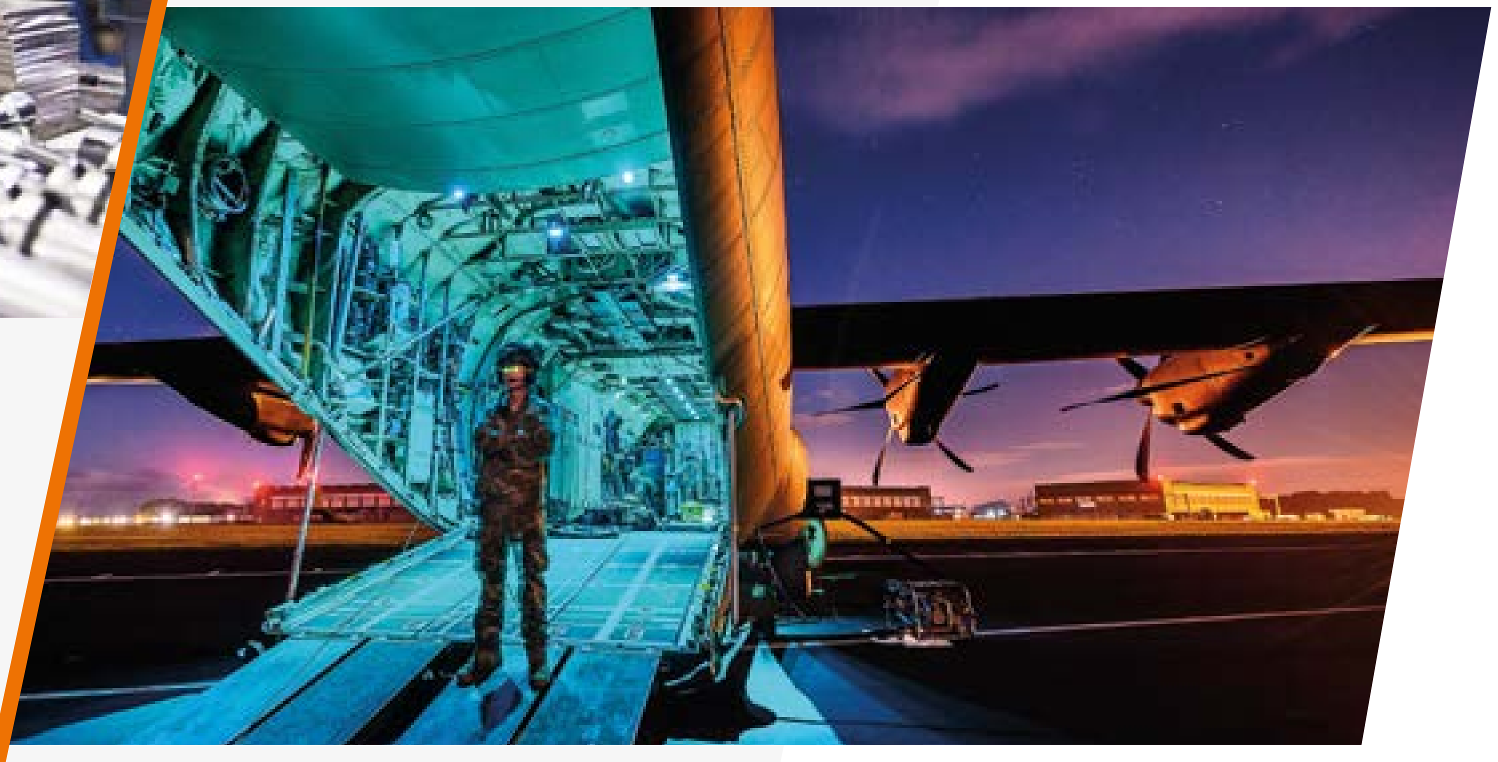
In 2019 the CaPS business will focus on continuing to build on our reputation as a trusted provider of services in the defence and security sectors. There are growth opportunities available in Artificial Intelligence, space and intelligence programmes, and we will pursue these fully whilst also linking with our engineering colleagues to promote the integrated proposition of TP Group.

Technology & Engineering (T&E)

Our highly skilled multidisciplinary engineering teams apply our advanced technology to produce solutions for our customers which can be relied upon for long service life, in challenging or dangerous environments.

We have the experience of working in highly regulated industries and safety critical environments working across the whole lifecycle from concept to disposal.

Based upon 75 years of engineering heritage and leveraging our unique knowledge, skills and experience, we combine a range of high-end capabilities to produce high-integrity equipment from our factory facilities in Portsmouth and Manchester.



T&E business growth trend

Note – 2017 revenues are restated to reflect the impact of IFRS 15, prior years are as originally reported, refer to note 2.1 to the financial statements for further detail

Business performance

Revenue

£27.7m

+25% (2017: £22.1m)

Adjusted operating profit

£4.9m

+23% (2017: £4.0m)

Operating profit

£2.6m

(2017: £2.3m)

Closing order book

£42.3m

(2017: £39.8m)

2018 was a year of organic growth and improved efficiency in the T&E business unit.

Demand across the business remains high. Much of this demand is over multi-year projects, but the closing order book still equates to more than 17 months' work at the 2018 run-rate, so future visibility of factory loading is encouraging.

Profitability has improved through various production efficiency initiatives and integrated working between the sites.

Recovering oil & gas business

Improving confidence in the downstream processing sector, along with the step-change in Manchester's precision manufacturing capability has boosted order intake, with new contracts in India and Saudi Arabia. Prospects in downstream oil and gas are better than they have been for many years.

Continuing presence in defence programmes

The Royal Navy is celebrating 50 years of the Continuous At-Sea Deterrent, known as CASD. Since April 1969 there has always been one submarine from Clyde Naval Base carrying out Operation Relentless. TP Group, through its current and preceding iterations has been connected with this programme throughout, and we are proud to be associated with its critical contribution to national security.

Investing in production systems

We have implemented the FactoryMaster ERP system and a shop floor data capture system to deliver business intelligence that leads to more efficient planning and manufacturing with improved quality assurance. We are also optimising layout and process at both primary manufacturing sites. This includes the re-purposing and refurbishment of a 10,000 square foot area in Manchester as a specialist fabrication cell to support cross-Group working on equipment packages.

Westek acquisition

Late in 2018 we acquired Westek Technology Ltd. We have already seen progress in customer outreach with new contracts in the UAE and elsewhere, and first steps in adding to their manufacturing capacity to meet demand.

Outlook

The focus for 2019 is to work towards three main goals. We aim to:

- protect our core business by continuously improving quality assurance, efficiency and customer interaction;
- build upon our experience with packaged gas management equipment to pursue technical development in new fields like carbon capture and the hydrogen economy; and
- invest in further developments of our high-integrity clean fabrication and assembly.

Financial measures

Our strategic priorities

/01 Sustainable competitive leadership in complex mission-critical systems

/02 Drive value from excellent relations with major customers

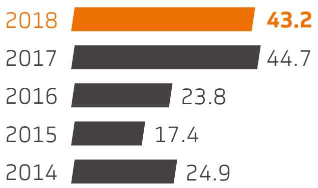
/03 Invest in best-in-class operating capabilities

/04 Supplement organic growth with suitable acquisitions and partnerships

/05 Expand our geographic reach in customers and capabilities

Order intake

£43.2m



Link to strategic priorities

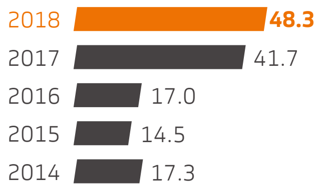
/01 /02 /03 /04 /05

Why we measure it: Orders are the primary demand stimulus for the business and are the early indicator of revenue and profit performance in following periods. These are binding commitments and so do not include framework contracts or agreements where umbrella terms are agreed but tasking orders are yet to be issued.

Performance: Order intake has remained high and well ahead of revenue, ensuring continuing growth. Large scale, long term contracts as seen in 2014 and 2017 can distort the picture in single years yet the five-year growth picture is clear.

Order book

£48.3m



Link to strategic priorities

/01 /02 /03 /04 /05

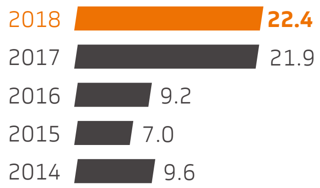
Why we measure it: The order book is a clear indicator of forward demand for the business. It is the basis of capacity planning and resource allocation.

Performance: The order book grew by 16% and equates to almost fifteen months of activity at the 2018 run-rate.

Note – 2017 value is restated to reflect the impact of IFRS 15, prior years are as originally reported, refer to note 2.1 to the financial statements for further detail

Cash

£22.4m



Link to strategic priorities

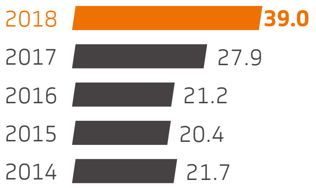
/01 /02 /03 /04 /05

Why we measure it: Maintaining our cash balance allows us to manage the operational business effectively and flexibly, and have resources available for investment as it is required

Performance: The closing cash balance rose by £0.5m after an outflow of c. £3m for the acquisition of Westek, to maintain available funds to support our growth ambitions.

Revenue

£39.0m



Link to strategic priorities

/01 /02 /03 /04 /05

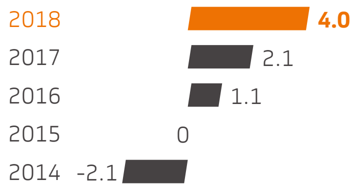
Why we measure it: Revenue is the fundamental indicator of the scale of the business, and also demonstrates our ability to convert demand into value and fuels the generation of cash.

Performance: Continuing the growth trend with an increase of 40%.

Note – 2017 values are restated to reflect the impact of IFRS 15 and includes revenues introduced from acquired companies. Prior years are as originally reported. Refer to note 2.1 to the financial statements for further detail

Adjusted operating profit

£4.0m



Link to strategic priorities

/01 /02 /03 /04 /05

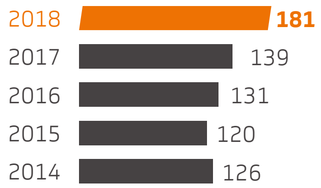
Why we measure it: Adjusted operating profit provides an indication of the performance of core operating activities after removing transactions that are not reflective of the routine business operations. It demonstrates our ability to convert the order book efficiently whilst managing indirect costs.

Performance: Adjusted operating profit increased 85% as a result of close operational focus on improving margins and on-time, right-first-time delivery performance.

Note – 2017 values are restated to reflect the impact of IFRS 15, prior years are as originally reported. Refer to note 3 to the Accounts for the reconciliation between Operating Profit and Adjusted Operating Profit

Productivity – revenue per head

£181k



Link to strategic priorities

/01 /02 /03 /04 /05

Why we measure it: Revenue per head is an indicator of overall efficiency and productivity and contributes to margin improvement initiatives.

Performance: Productivity across the Group rose by 18%, reflecting the use of smarter manufacturing technology and processes and a drive to move the delivery mix towards higher margin specialist business.

Note – 2017 values are restated to reflect the impact of IFRS 15, prior years are as originally reported

We have delivered strongly against all our KPIs

I am pleased to report that TP Group has continued to deliver against our strategy with improved adjusted operating profit and closing order book, alongside a strong closing cash position.

It is pleasing to note that this performance has been derived from both business streams, and the investment in our CaPS business is now yielding positive returns. As a growing and entrepreneurial business, we will continue to invest in people, capability and systems to deliver our long-term goals.

85%

growth in adjusted operating profit

Group Key Performance Indicator	2018 £'m	2017 £'m	Change £'m
Order Intake	43.2	44.7	-1.5
Closing Order Book	48.3	41.7	6.6
Revenue	39.0	27.9	11.1
Adjusted Operating Profit	4.0	2.1	1.8
Operating Loss	0.0	-1.0	0.9
Cash	22.4	21.9	0.5

Closing Order Book by Business Stream	2018 £'m	2017 £'m	Change £'m
T&E	42.3	39.8	2.5
CaPS	6.0	1.9	4.1
Group Closing Order Book	48.3	41.7	6.6

Revenue by Business Stream	2018 £'m	2017 £'m	Change £'m
T&E	27.7	22.1	5.6
CaPS	11.3	5.8	5.5
Group Revenue	39.0	27.9	11.1

Adjusted Operating Profit by Business Stream	2018 £'m	2017 £'m	Change £'m
T&E	4.9	4.0	0.9
CaPS	0.2	-0.8	1.0
Central Costs	-1.1	-1.1	0.0
Group Operating Profit (adj.)	4.0	2.1	1.8

Operating Results

Group KPIs
We have delivered strongly against all our KPIs. We have balanced the interests of growth and in-year performance with investment to ensure that we are well placed to deliver sustainable and improving returns.

Order book
The Group's closing order book increased by 16% to £48.3 million (2017: £41.7 million). This was drawn from the successful closure of significant long-term contracts in the defence sector, alongside a recovery in demand in the energy market. This included the second call-off of £12.5 million against the COGS framework agreement with BAE Systems, the extension of our work with Army HQ worth up to £2.3 million and a £2.0 million order from Naval Group for export equipment under our five-year framework agreement. In the energy sector, we have worked hard to secure the second phase order on the nuclear condenser systems project with Baker Hughes GE. This contract was secured just after the year-end in early January 2019, and at £6.4 million, gives us a strong start to the current year. This type of work is consistent with our strategy to pursue premium market opportunities where competition becomes more capability and quality driven with a consequential improvement in gross margins.

2017 was a record high in the Group's closing order book and to continue growing from that position through 2018 is a notable achievement and reflects upon the investment made in business development and marketing resources across the Group.

Revenue
Revenue increased by 40% to £39.0 million (2017: £27.9m), with growth delivered across the Group.

We benefited from a strong opening order book, and with continuing order capture well ahead of the revenue conversion, demand remained high throughout the year. Growth from the existing business was significant, contributing £10.3 million, which includes £4.6m related to Polaris Consulting which was acquired in December 2017. The remaining £0.8 million came from the acquisition of Westek in November 2018.

Technology and Engineering continued to improve throughput and ran at consistently high operating efficiencies. The business stream's revenue increased by 25% to £27.7 million (2017: £22.1m). This reflects the initiatives and investment by local management teams in both Portsmouth and Manchester to pursue continuous improvement and lean methods as part of an ongoing performance culture.

Consulting and Programme Services benefited from a blend of growth in established programmes, new contract engagements and additional revenues from the Polaris acquisition that closed in December 2017. The consolidated CaPS business, with revenues of £11.3 million (2017: £5.8 million) now has a critical mass that enables access to a wider range of larger and more complex programmes where they can compete effectively to drive future growth.

Adjusted operating profit
Adjusted operating profit increased by 85% to £4.0m (2017: £2.1m), primarily as a result of additional volume and an operational focus on improving margins and delivery performance.

The existing business contributed £1.7m of this increase, the balance coming from the acquisition of Westek.

In the Technology & Engineering business stream, revenue growth noted above was converted at similar gross margins to the prior year, coupled with close control of overheads which led to another improved adjusted operating profit position of £4.9 million (2017: £4.0m).

It is pleasing to note that the strategy of investment in Consulting and Programme Services is beginning to deliver improving returns as the business stream reaches a significant scale.

Adjusted operating profit for CaPS improved by £1.0 million in 2018 to a profit of £0.2 million, from a loss in 2017 of £0.8m.

The CaPS business will continue to build on this position and invest in people, processes and systems to support long-term business growth. We recognise that this investment does not necessarily translate to adjusted operating profit immediately as there is a lag from investment in the business infrastructure and capability to the delivery of both top-line growth and operating margins.

Closing order book

£48.3m

Revenue up

40%

Group operating loss

The Group's operating loss reduced to nil, an improvement of £1.0 million from 2017. This was driven by an increase in the underlying profitability of the business as noted above, offset by a number of factors:

- an increase in depreciation and amortisation (£0.5m) relating to the investments made in the business, specifically the Advanced Manufacturing Centre, and the adoption of IFRS 16 (refer below for further information); and
- an increase in acquisition-related expenses of £0.4 million.

Cash and bank balances

Year-end Group cash of £22.4 million (2017: £21.9m), was up on the prior year, notwithstanding the acquisition of Westek, for an initial purchase price of £3.0 million. This was achieved through strong working capital performance across the business.

Acquisitions, investments and disposals

The Company announced the acquisition of Westek Technology Ltd. in November 2018. The purchase was completed for an initial consideration of £3.0 million on a normalised net asset basis, funded from the Group's cash resources. Further consideration of up to £0.5 million is payable on delivery of certain employment transition activities within 12 months following completion of the acquisition.

The Group incurred £0.7 million of acquisition-related costs (2017: £0.2m) predominantly relating to the transaction noted above and additional search fees and services received. These were charged to the Statement of Comprehensive Income in the year.

Previous acquisitions led to earn-out payments of £0.3 million in year and the directors have agreed the remaining earn-out payments in relation to ALS Technologies and Polaris, which will be settled in 2019.

The Group continues to invest in the facilities, equipment and systems to build capability and develop our propositions. Across the Group, £0.9 million was invested in 2018.

The major investment was in the continuing enhancement of the Advanced Manufacturing Centre and supporting infrastructure at the Manchester facility, plus further investment in IT and systems infrastructure across the Group to support operational efficiency improvements through refined business processes and methods.

As noted last year, the directors reached an agreement with the local management to dispose of the trade and assets of our low-end fabrication activity, based in Oldham, Lancashire, under a management buy-out. These assets, following their impairment, were valued at less than £0.1 million on completion at 27 April 2018 and were disposed of for a total consideration of £0.3 million payable over the next 3 years.

Non-operating items

During the year, the Group incurred one-off non-operating costs of £0.8 million (2017: £0.7m). These relate to the business transformation actions required by the strategic plan, including employment-related restructuring costs and earn-out provisions relating to Polaris and Westek.

Finance costs

Finance costs of £0.1 million were incurred, predominantly relating to the fair valuation of a forward currency exchange contract and financing fees in relation to funding of the Advanced Manufacturing Centre.

Taxation

The Group expects to recover tax payments on account of £0.2m for the 2018 financial year (2017: £nil).

Results and dividends

The directors continually evaluate Group performance, and do not currently recommend the payment of a dividend (2017: £nil).

Adoption of IFRS 15 and IFRS 16

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" and applied the practical expedient methodology, under which contracts beginning and ending in 2017 or that were completed prior to 1 January 2017 are not restated. The impact of this is a reduction in opening reserves of £3.2 million. Refer to note 2.1 to the financial statements for further details.

The Board has decided, in accordance with the early adoption provisions of IFRS 16 "Leases" to implement the standard one year ahead of requirement. Rather than apply IFRS 16 retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates", the Group is permitted to apply IFRS 16:c5(b) under which comparative information is not restated. The Group has recognised the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2018, the date of initial application. The impact of this is a reduction in reserves of £0.7 million and the creation of a right-of-use asset valued at £4.5 million as of 1 January 2018 with an opening lease liability of £5.2 million. Refer to note 2.1 to the financial statements for further details.

Brexit

As Brexit negotiations progress, the Group has looked at the potential impacts on the business. In the year ended 31 December 2018 a substantial amount of the Group's revenues originate in the UK and were related to the UK defence market, and therefore ultimately to UK government defence spending. To the extent that this is impacted by Brexit, it may have a knock-on impact on the Group depending on Government decisions on current and future programmes.

Our strategy is to increase our level of overseas work and the nature of our approach to this may be impacted by Brexit.

In 2018 the amount of revenue from non-UK customers in the European Union was less than 5%. Most of this revenue was attributable to long-term defence contracts in France and Germany and these are not expected to be materially impacted by any short-term uncertainty surrounding the EU exit process. This is a consequence of:

- our competitive position in the key global programmes we support; and
- the long-term nature of the contracts and low number of deliverables provides the business ample opportunity to ensure the requisite delivery paperwork is in place well ahead of time.

We are also potentially subject to low-level exposure to supply of raw materials, most notably steel, from the EU. A number of positions have been adopted to mitigate our risks on pricing and availability from the EU supply chain. A very small section of our supply chain is based in or sources from Europe. Where possible we are looking to source from else-where but in any event the nature of the goods means that under WTO rules we expect them to attract low levels of tariffs (c2%). Similar to our deliveries to customers, the business has excellent visibility of when these goods are required and we can plan receipt accordingly to tie into customer build programs.

In the UK defence market (and indeed wider Government spend across our sectors) activity levels appear to remain high and we are encouraged by recent bid and contract activity. Until the Brexit outcomes are known, however, it is not possible to predict accurately the true impact on the UK economy and our activity within it.

In Europe, whilst the activity only represents a small percentage of Group revenue, we see limited reason for concern, as an example last year we signed a five-year framework agreement to facilitate further defence related work with Naval Group in France.

Auditor

As part of our continued drive to adopt the highest possible standards of corporate governance and to tie in to the final year of service for the current audit partner, before his rotation off the engagement, the directors have undertaken a competitive tender process for the 31 December 2019 year-end audit. The directors have resolved to appoint RSM UK Audit LLP as auditors following the completion and issuance of these financial statements. Deloitte LLP has indicated its willingness to remain in office until RSM UK Audit LLP are appointed.

Going concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the accounts. In reaching this conclusion, the directors have considered forecasts that cover a period of at least twelve months from the date of the approval of these financial statements.

The forecasts take into account the Group's existing cash resources of £22.4 million, which provides sufficient insulation against any reasonable downside scenarios and risks.

Whilst there might be some disruption in the short term on some of its projects, TPG has limited concern that Brexit could impact on its ability to deliver against its forecast targets. Based on:

- the quality of TPG's order book and the programs it is on (both globally and in the UK);
- the limited number of activities the business has in the EU and the strong position it holds on them;
- the mitigation actions the business is putting in place; and
- the limited impact we expect Brexit to have on the defence market (both in the UK and in the EU).

Derren Stroud
Chief Financial Officer

TP Group strives to provide specialist services and engineering solutions in a manner that does not compromise our integrity or our high standards of business conduct. We take seriously our responsibility to behave in a manner which is both responsible and ethical, and introduced our Corporate Code of Conduct in 2017.

This code applies to all officers, employees, workers, contractors and all those representing TP Group (including its subsidiaries) in any capacity and covers a range of areas where we define the standards of behaviour and conduct that we expect as a responsible business.

"We have worked hard in staff developement programmes across the Group."

Employee engagement

We actively encourage employee engagement throughout our sites. At the end of 2018 we introduced an internal communication strategy which included more direct communications with employees such as email bulletins, an employee led, quarterly magazine and the introduction of our core value programme, 'Team tpgroup'. Our core values were created in collaboration with our employees and encompass all our beliefs at TP Group. They are:

- **Achieve together** – thrive on knowledge sharing, helping each other and delivering projects as a team.
- **Embrace responsibility** – take responsibility for our own work. Trust our people to deliver their projects and have ownership in what they do.
- **Strive for excellence** – constantly strive to achieve the highest standards in our work.
- **Build unity** – work cohesively with our colleagues, customers and partners to build strong and lasting relationships.
- **Challenge ourselves** – challenge ourselves and our people to develop and grow. To learn new things and to always seek to improve what we do.
- **Have integrity in all we do** – always conduct our business fairly, with honesty and transparency.

We drive a culture of respect for one another and make every effort to ensure that the work environment, whether in an office, workshop or other location where work is carried out, is open and comfortable.

We do not tolerate any forms of bullying. For the avoidance of doubt, bullying involves any offensive, intimidating or insulting behaviour involving the misuse of power that can make a person feel vulnerable, upset, humiliated, undermined or threatened.

If someone's actions in the work environment are offensive and hostile, we encourage others to speak up without fear so that we can remedy the situation quickly and sensitively.

Diversity & inclusion

We create an environment where individuals are treated with dignity and respect, in line with our duty to provide equal opportunities to all.

We respect human rights and do not directly or indirectly discriminate between persons based on reasons of race, creed, sex, gender, sexual orientation, social status, religion, nationality, pregnancy, age or bodily or mental disability.

We respect the cultures, customs and history of every country in which we operate or with whom we may come into contact.

Phil Cartmell
Chief Executive Officer

Training

TP Group is committed to ensuring that all employees are able to meet their career aspirations, and as such place a high value on the development of its staff. As well as making sure that all employees are fully trained in their specific job roles, we also offer a suite of development opportunities delivered by both internal and external providers based on an individual's career path and learning requirements. To ensure that we continue to look to the future, we develop both our current and future leaders with a variety of leadership development opportunities and, for those who are early in their careers we are looking at developing robust graduate and apprenticeship schemes which will allow us to continue to recruit and retain the best talent.

Customers

We listen to the opinions of customers and take account of them in the carrying out of business affairs.

We are implementing a formal customer feedback process across our key accounts to drive a more joined up understanding of how we can seek to continuously improve the services we offer to our customers.

Anti-bribery & corruption

We have a clear anti-bribery policy supported by a process which is followed across the business to put in place all reasonable steps to ensure full compliance and control in this area. In our business dealings we never act in a manner which results in an illegal restraint of trade, such as collusion in tender or collusion with a view to the fixing of price levels or levels of production or supply or the division of markets.

We never conduct unfair trade practices, such as boycott, resale price maintenance or payment of unjustified rebates.

We take a zero-tolerance approach to bribery and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate.

We conduct ourselves in an ethical and responsible manner in the communities in which we work. In particular, we do not:

- render public officials or persons in a similar position, any economic favour such as money, gift or other favour in return for performance of their duties.
- pay any agent, advisor or consultant any commission which they have reason to know will be used for influencing public officials or persons in a similar position in an unlawful manner.
- render employees or officers of customers any economic favour such as money, gift or other favour, the value of which is greater than a generally accepted commercial level, nor receive such economic favour from employees or officers of customers.

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Conflict of Interest

Our business judgement is free from bias, conflicts of interest or undue influence of others. Any situation that might interfere with our ability to perform our jobs effectively, or even create an appearance of bias, should be avoided. In particular, employees should not:

- participate in any activity or association which creates or appears to create a conflict between his or her personal interest and TP Group's business interest.
- use TP Group's property, assets or information system for any purpose other than that of TP Group's business.

Treatment of confidential information

We strive to protect those who have placed their trust in us. We therefore conduct our business with transparency and honesty.
As such, employees should:

- hold any secret information of TP Group as strictly confidential and should not divulge such information to any third party, nor should they use the same for any purpose other than that of the business of TP Group.
- not infringe the intellectual property rights of any third party, including the copying of computer software, without express permission of such third party.
- timely disclose any information of TP Group in accordance with any laws and regulations protecting the interests of investors including the rules of any relevant stock exchanges.

If employees become acquainted with any information of TP Group or its customers which may materially influence the judgement of investors in TP Group or in such customers, they should not sell or purchase any stock of TP Group or stock of such customers unless and until such information becomes public and in any event employees should comply with all relevant insider dealing laws including but not limited to the Market Abuse Regulations 2016.

We understand the importance of ensuring the privacy, security and appropriate handling of data relating to employees, customers and suppliers, including all personal data and we ensure that this is managed effectively through policies, procedures, education and audits throughout our businesses. Implementation of the EU General Data Protection Regulation 2016/679 took place across the company to the scheduled timetable in May 2018. The TP Group is already following the Data Protection Act 2018, which also covers GDPR, so in the event of Brexit there will be no loss of continuity to adherence to this regulation.

No modern slavery

Modern slavery takes various forms, such as slavery, servitude, forced or compulsory labour and human trafficking, all of which involve a violation of fundamental human rights by another in order to exploit them for personal or commercial gain.

As a business we are not yet legally required to maintain and publish a specific anti-slavery statement or policy. Nevertheless, we take a zero-tolerance approach to modern slavery and are committed to acting ethically and with integrity in all our business dealings and relationships. As such, employees are encouraged to raise concerns about any issue or suspicion of modern slavery in any parts of our business or supply chains of any supplier at the earliest possible stage.

Community engagement & volunteering

We are committed to community engagement and volunteering within our local communities at TP Group. In 2018 we introduced a STEM (initiatives in Science, Technology, Engineering and Mathematics education) programme where all employees have the opportunity to engage in extracurricular education for children and young people. Our people understand the importance STEM plays in schools and wider education. If young people choose to pursue careers outside of engineering, then the UK will not have enough resources to meet demand in this critical field. That is why for 2019 we intend to provide 100 hours of voluntary community engagement in the STEM area.

Our people are also involved in raising money for local charities, such as our site in Manchester, where they have introduced dress-down Friday to raise money for the local Willow Wood Hospice, and in Wincanton where they have been raising money for Children's Liver Disease Foundation through many fundraising initiatives.

"100 hours planned support to STEM education."

Our Bristol office is really excited to be sponsoring, for the second year running, Jordan Crane who is currently playing in the back row at Bristol Bears Rugby Club

As well as fundraising for our local communities we also introduced our Group chosen charities at the end of 2018. These were selected through staff consultation, and so we are supporting Cancer Research UK, Alzheimer's Society and Mind (Blue Light) Mental Health through a range of community activities.

TP Group is also supporting Jamie Ironmonger, who suffered from PTSD during his 16 years as a Police Officer. In April 2019 he will be heading off to Kathmandu and onwards to Tibet to walk in the footsteps of George Mallory and Andrew Irvine as they attempted to summit Everest via the north side back in 1924. Jamie is taking on this challenge in support of Mind, the Mental Health Charity to raise awareness of the issues that can affect us all.

TP Group has provided Jamie with his high altitude down suit, which will offer him full body protection during his expedition.

Environment

We comply with all laws and regulations concerning the protection of the environment and keep informed and aware of environmental issues concerning TP Group and its business.

Many of our businesses are accredited to ISO 14001, which is the environmental management system. The measures in place for the EMS system and associated external audits, ensures that these businesses do not damage the environment. Those that are not yet accredited conduct environmental assessments to raise awareness amongst its employees to protect the environment against damage.

Reducing waste and water

TP Group is very mindful of consuming less waste and water. In all of our sites there are recycling bins appropriately labelled to dispose of items correctly. Metrics of usage are monitored against targets set to reduce both waste and water.

TP Group's risk management framework, policies and procedures are designed to identify, manage and mitigate risks that may impact upon the execution of the Group's strategy and day-to-day business.

Whilst we cannot eliminate uncertainty fully, we aim to ensure that we are only exposed to risks that can be managed effectively in accordance with the Board's risk appetite.

Effective risk management is essential to safeguarding TP Group's ongoing commercial success. We manage risks through three phases in a structured and controlled framework.

Risk management framework

The key elements of this approach are:

Identify and evaluate

The Board has identified the principal risks which could impact the execution of its strategy, delivery of business objectives or continuity of ongoing operations. A formal process has been established for the Executive Management Team (EMT) to identify and manage risks on a continuous basis, reporting to the Board and supported by Group Finance through regular risk reviews.

Using a centrally maintained risk register, risks are assessed and prioritised by severity, using a scoring matrix of likelihood and impact for effective comparison and prioritisation.

Action plan

Risk responses and strategies are prepared by the EMT to ensure risks are appropriately managed or mitigated and where possible, their likelihood and/or severity is reduced to an acceptable level. The Board reviews and agrees the risk response plans, monitoring them regularly for effectiveness and ensuring actions taken are appropriate and sufficient. In some cases, certain areas of risk are further mitigated by external insurance.

Implement

Local management regularly monitors TP Group's register of risks and the mitigation actions that apply to them. Their continuous review is reported to the EMT where the risk portfolio is consolidated and reviewed before onward reporting to the Board. This ensures a consistency of awareness across the business of context in which those risks stand and the potential consequences of them maturing.

The Board therefore monitors the adequacy of any mitigating controls and actions and the effectiveness of risk management and internal control systems that are in place.

Our strategic priorities

/01 Sustainable competitive leadership in complex mission-critical systems

/02 Drive value from excellent relations with major customers

/03 Invest in best-in-class operating capabilities

/04 Supplement organic growth with suitable acquisitions and partnerships

/05 Expand our geographic reach in customers and capabilities

Key performance indicators

/01 Orders

/02 Order book

/03 Revenue

/04 Adjusted operating profit

/05 Cash

/06 Revenue/head

Risk trend

The direction of change during the year is illustrated by the icon in the 'Risk Trend' column. Please note that this refers to the overall change in the risk to the Group following mitigating actions.

/\ Increased risk

= No change to risk

\/ Decreased risk

Having considered all the elements of the risk management framework described here, the Board has concluded that it has taken all reasonable steps to satisfy itself that the risk management framework is effective and has addressed all material risks up to the date of approval of the Annual Report and Accounts 2018.

Principal risk	Management strategy	Risk Trend	Strategic Impact	KPIs Affected
1. Global economic conditions				
The Group is adversely affected by the commercial conditions in its markets.	The Group is diversifying into adjacent markets to reduce our exposure to a single market event. We carry out review and analysis of emerging trends in our key markets including political and economic aspects. This intelligence informs strategy and planning decisions at the Group and business unit levels.	=	/02 /05	/01 /02 /03 /04 /05
2. Government policy, regulation and legislation				
Brexit leads to adverse trading conditions.	From a defence perspective, Brexit is expected to have limited impact on the Group as a result of our competitive position in the key global programmes we support. In terms of our activities in the energy sector, the possible disruption is in relation to our supply chain, potentially through tariff impacts or delays to material deliveries. Alternative sources of supply are being investigated and/or customer contracts are being negotiated to mitigate best possible the potential risks related to supply chain impact. We will continue to monitor our position as the exit date draws closer. Further narrative is given in the CFO's statement.	/\	/01	/01 /02 /03 /04 /05
Revenue generated from defence and energy industry contacts are impacted by changes in government policies and legislation.	Defence contracts are with long-term customers with whom we have well established and close working relationships that provide us with good visibility of future programmes and spend. Defence policy, at least in the UK, has protected the key programmes we are active on. Whilst the business is less reliant on the energy sector, we monitor policy and programmes horizon in order to react early to potential impacts to the business plan.	=	/02 /05	/01 /02 /03 /04 /05
Health safety, environmental, privacy and social regulations place greater burden on the business.	These risks are managed by the Group's accreditation under BS EN ISO 14001 (Environmental Management System) and OHSAS 18001 (Occupational Health and Safety Management System). The Group has implemented measures to comply with GDPR and monitors pending regulations closely.	=	/03	/04 /05
3. Customers, competitors and commercial relationships				
Commercial contracts for customers may be large and long term, with risks relating to contract delivery and performance, including cost.	Internal procedures are in place to ensure that risks are managed on a case-by-case basis so that contracts can be successfully delivered to customers on time, on budget and to the highest quality specification.	=	/02	/03 /04 /05

Principal risk	Management strategy	Risk Trend	Strategic Impact	KPIs Affected
Competitor capabilities may change leading to loss of advantage or market position.	The Group's approach is to manage business development primarily through the business unit teams who are closely aligned to their propositions and the competitive threats they face. Know-how has been built up over time, and close relationships with customers provide insight into trends in the requirement which create barriers to entry for competitors.	=	**/01** /02 /03 /04 /05	**/01** **/02** **/03** **/04** **/05** /06
4. Availability of key resources				
Key employee knowledge and skill, upon which key functions or initiatives depend, may be lost.	The Group seeks to avoid single points of failure or capacity constraints by attracting and retaining suitably skilled and experienced staff to support the business performance. This is achieved through appropriate and competitive remuneration packages, a framework for personal and professional development and working environments that make TPG an attractive place to work.	=	**/01** **/02** **/03** /04 **/05**	**/01** /02 **/03** **/04** /05 /06
Loss of performance, reliability and availability of certain key assets, equipment and information technology systems impacts delivery execution.	The Group has taken steps to avoid single points of failure or capacity constraints. The business has also taken out insurance to mitigate best possible the risk. Some equipment is subject to structured warranty and maintenance provisions and as a further mitigation, selected tasks can be subcontracted out as a worst-case response.	=	/01 **/02** **/03** /04 /05	/01 /02 **/03** **/04** **/05** /06
5. Technology and security				
Cybersecurity threats come in a number of forms, posing a risk to sensitive data held in the normal course of business, as well as business interruption risk.	The Group has implemented Cyber Essentials Plus across its businesses and continuously reviews the quality of its security shields and protocols to mitigate the threat.	=	/01 **/02** /03 /04 /05	/01 /02 **/03** **/04** **/05** /06
6. Acquisitions				
Issues may arise from an acquisition that could add unexpected costs or liabilities to the Group.	Such risks cannot be eliminated; however they are mitigated through, amongst other things, due diligence, vendor warranties and integration plans developed and executed in a timely fashion. All acquisitions are directed, approved and monitored by the Board.	=	/01 /02 /03 **/04** /05	/01 /02 /03 **/04** **/05** /06

Andrew McCree
Non-Executive Chairman

Andrew McCree was appointed to the Board in October 2014 and has over 35 years' experience of energy and environmental technology and consulting businesses, with an extensive knowledge of technologies and markets. Following his early career with BP Exploration, he then joined the UK Atomic Energy Authority (UKAEA) and in 2005 became Chief Executive of AEA Technology. Since 2011 he has worked for a US specialist consulting business. His principal role has been to advise on a range of defence, energy and climate change matters working with both government agencies and private sector clients.

Phil Cartmell
Chief Executive Officer

Phil Cartmell was appointed to the Board in September 2009. He has a highly active career in business, having formerly been Chief Executive of Vega Group plc between 2001 and 2008, where he grew the company into a leading European aerospace and defence business. In February 2008, Vega Group was acquired by Italian multi-national, Finmeccanica, for a substantial premium. Phil has served as a Non-Executive Director and adviser for a number of companies including Alterian plc a leading provider of Global Information Management Solutions, where he was Non-Executive Chairman until its acquisition by SDL plc in January 2012, and Trafficmaster.

Derren Stroud
Chief Financial Officer

Derren Stroud was appointed to the Board in March 2016. Derren, a member of the Chartered Institute of Management Accountants has over 20 years of industry experience, including senior finance roles at Retail Decisions, Envox and Safenet. He has worked within a range of specialist innovation and engineering businesses, with both public and private equity backing, serving a global customer base from manufacturing and commercial sites worldwide.

Jeremy Warner-Allen
Non-Executive Director

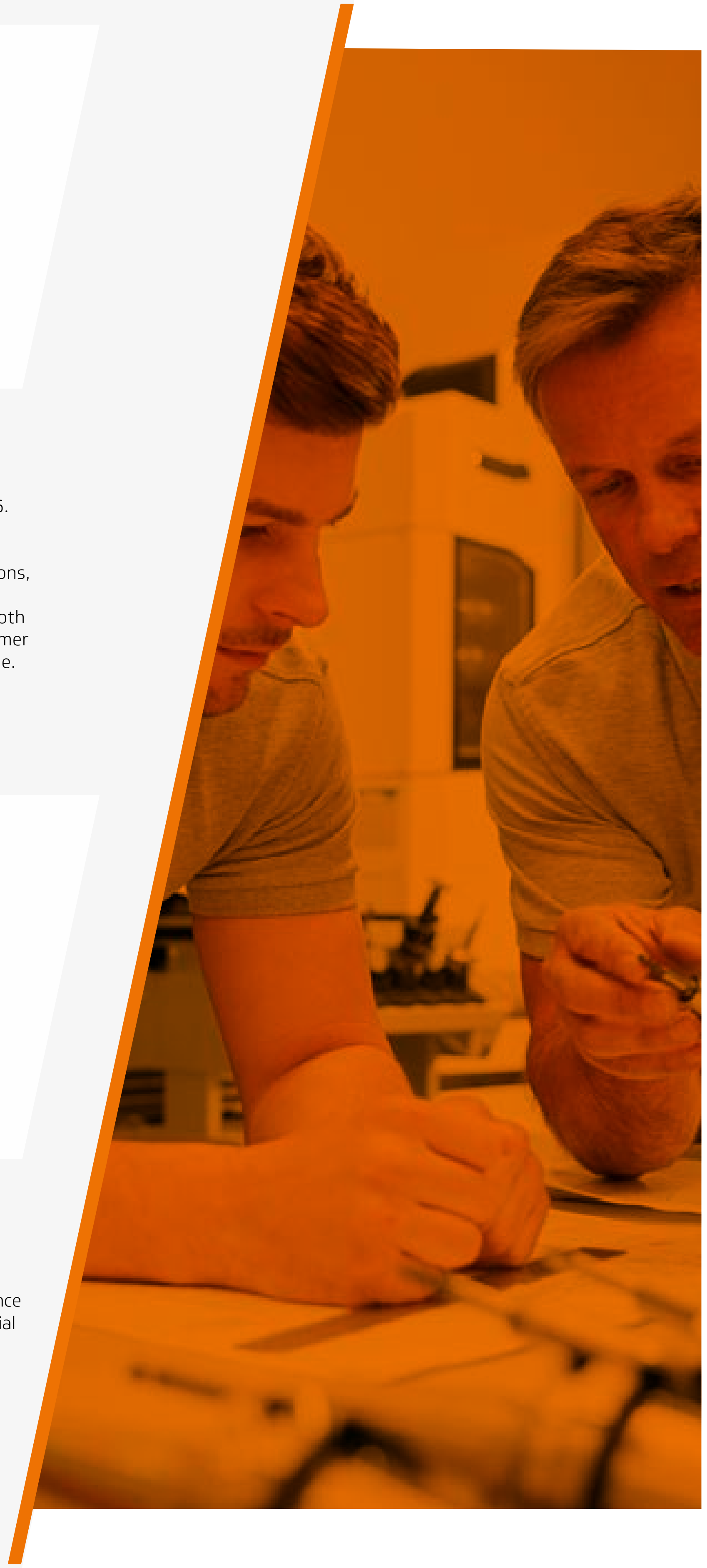
Jeremy joined the Group in February 2017. He has over 25 years' experience in capital markets, most recently as Executive Director, Board Member and Head of the Growth Companies Team at Cenkos Securities plc, where he advised a number of AIM companies over a period of 11 years. Prior to joining Cenkos, he was a founding member of Beeson Gregory Limited and responsible for the UK sales desk, a role he retained when Beeson Gregory merged with Evolution Securities in 2002. Jeremy chairs the Remuneration Committee and has held this position since appointment.

Phil Holland
Non-Executive Director

Phil joined the Group in February 2017. He is a chartered accountant and has over 20 years' experience in board-level finance roles, previously with Atlas Estates Limited, Laing O'Rourke plc, Teesland plc and Estates & General plc. In 2011, Phil became Finance Director and Deputy Managing Director of Primary Health Properties PLC ('PHP'), a leading investor in primary care real estate, with a portfolio of over 300 medical centre properties across the UK and Republic of Ireland, until leaving that role on 31 March 2017. Phil joined Prime plc, a healthcare real estate developer as Chief Investment Officer on 10 April 2017. Phil chairs the Audit Committee and has held this position since appointment. Phil is also a non-executive director of Stenprop Limited, a real estate investment trust listed on the London Stock Exchange.

Claire MacPherson
Company Secretary

Claire MacPherson was appointed as Company Secretary in February 2015 and is also the Group Legal and Compliance Director. Claire has enjoyed a successful career in commercial and legal management spanning over 20 years. She has worked in the global defence, retail transport and energy sectors for companies such as GEC Marconi, Lockheed Martin and CSC Computer Sciences Corporation.



Directors' report

The directors present their report together with the audited financial statements for the year ending 31 December 2018.

Principal activity

TP Group is a system engineering business working in defence, intelligence & security, space and energy sectors. With specialist consultants, engineers and precision manufacturing, we deliver mission-critical systems and equipment that keeps our customers and the wider public moving, working and secure.

Our customers trust us to ensure the safety, reliability and performance of complex systems in the most challenging or arduous situations. With global presence and proven field experience, TP Group is the first choice for platform builders, integrators and users of both military and industrial systems.

- **Consulting & Programme Services** ("CaPS") - advising clients on strategic problems and implementing technology-driven solutions
- **Technology & Engineering** ("T&E") - the capability to design, manufacture and support mission-critical systems

Results and dividends

The directors do not recommend the payment of a dividend (2017: £nil).

The results of the financial year and future developments of the Group are detailed in the Strategic Report and the Financial Statements.

Research and development

Total R&D expenditure in the year was £0.6m (2017: £0.2m), all of which was charged to the income statement in the year.

Capital management

Capital consists of equity attributable to the shareholders of TP Group plc (the "Parent Company").

The primary objective of the Group's capital management actions is to ensure that it maintains sufficient capital to support the on-going expenditure requirements of the business with a view to future commercial success from these activities in order to maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of working capital requirements. To adjust the capital structure, the Group may issue new shares or raise debt capital.

In July 2017, the Group raised further funds through an issuance of ordinary shares. On 28 July, 336,101,128 shares were issued for trading on AIM at an issue price of 6.5 pence per share. This raised gross proceeds of £21.8 million, realising £20.8 million net of fees and expenses, to be used primarily to help fund the Group's acquisition programme and other internal investments.

Following the fundraising, the Group now has 758,565,854 ordinary shares in issue admitted to trading on AIM.

Director's report (continued)

Creditor payment policy

The Group and Parent Company seek to agree payment terms with their suppliers in advance of a transaction and will pay in accordance with the agreed terms as long as the Group and Parent Company are satisfied that the supplier has provided goods and services in accordance with the order.

The Group's creditor payment period was 31 days (2017: 31 days). The Parent Company's creditor payment period was 31 days (2017: 31 days).

Employees

The success of the Group depends on maintaining a highly qualified and well-motivated workforce. Every effort is made to achieve a common awareness of the financial and economic factors affecting the performance of the Group. Regular communication with all employees is essential and achieved by informal meetings, email updates and internal briefings.

The Group's Equality Policy encourages recruitment, training, career development and promotion on the basis of professional capability and is committed to retaining and retraining as necessary employees who become disabled during the course of their employment.

Directors' and Officers' liability insurance

The Group has purchased liability insurance covering the directors and officers of the Parent Company and its subsidiaries.

Directors and their Interests

The directors during the year and up to the date of this report were as follows:

Executive

P Cartmell
S Kings (resigned 9 February 2018)
D Stroud

Non-executive

A McCree
P Holland
J Warner-Allen

Directors' interests in shares are shown in the Remuneration Report.

Related party transactions

These have been disclosed within note 30 to the financial statements.

Director’s report (continued)

Auditor
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the Group’s auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information to establish that the Group’s auditor is aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

As part of their continued drive to adopt the highest possible standards of corporate governance and to tie in to the final year of service for the current audit partner, before his rotation off the engagement, the directors have undertaken a competitive tender process for the 31 December 2019 year end audit. The directors’ have resolved to appoint RSM UK Audit LLP as auditor following the completion and issuance of these financial statements. Deloitte LLP has indicated its willingness to remain in office until RSM UK Audit LLP are appointed.

By order of the board

Claire MacPherson
Company secretary
Cody Technology Park
Old Ively Road
Farnborough
Hampshire
GU14 0LX
1 April 2019

Corporate Governance Report

Principles of Good Corporate Governance

The Group is committed to high standards of corporate governance. It has adopted procedures to institute good governance insofar as it is practical and appropriate for an organisation of its size and nature. Following recent changes in the requirements for all AIM listed companies to adopt a recognised corporate code, the Group has adopted the Quoted Companies Alliance Corporate Governance Code Companies (the “QCA Code”) with effect from 28 September 2018.

The QCA Code sets out 10 key principles that companies should adhere to or have a plan in place to achieve. At this time the Group is able to demonstrate compliance with nine of the ten principles. The Group is working towards full compliance with all principles during the course of 2019.

The following table shows, at a summary level, compliance against each principle. Furthermore where this Annual Report references any of the principles, the relevant section is noted. Full details of our compliance can be found on our website: https://www.tpgroup.uk.com/media/1208/tpg-statement-of-compliance-with-the-qca-corporate-governance-code-draft-11-clean-1.pdf.

Principle	Compliant Yes/No	Comments
1) Establish a strategy & business model which promotes long term value for shareholders	Yes	Please refer to the Chairman’s Statement, Investment Case, Market Review and Business Model sections of this report
2) Seek to understand and meet shareholders needs and expectations	Yes	Please refer to the information provided below
3) Take into account wider stakeholders, social responsibilities, and their implications for long-term success	Yes	Please refer to the Corporate and Social Responsibility section of this report
4) Embed effective risk management considering both opportunities and threats throughout the organisation	Yes	Please refer to the Risk Management Framework section of this report
5) Maintain the board as a well-functioning balanced team led by the chair	Yes	Refer to the Board biographies section of this report and the further information provided below
6) Ensure that between the directors they have the necessary up to date experience, skills and capabilities	Yes	As above
7) Evaluate board performance based on clear and relevant objectives seeking continuous improvement	No	The board is investigating the most appropriate approach to evaluate performance in accordance with the requirements of the QCA Code.
8) Promote a corporate culture that is based on ethical values and behaviours	Yes	Please refer to the Corporate Social Responsibility and CEO Statement (Core Values) sections of this report
9) Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Yes	Please refer to the information provided below
10) Communicate how the Company is governed and is performing by maintaining a dialog with shareholders	Yes	Please refer to the information provided below

Corporate Governance Report (continued)

Application of Principles

Effective Board Structure and Role

During the year, the board consisted of three executive (reduced to two following the departure of Simon Kings in February 2018) and three non-executive directors. Andrew McCree remained in post as non-executive Chairman throughout the period. The Group is satisfied that the current composition of the board is appropriately skilled and experienced, and that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively.

The board is responsible for overall Group strategy, acquisition and divestment policy, approval of the budget, approval of major commercial contracts and capital expenditure projects and consideration of significant operational and financial matters.

All directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. The Chairman engages with the directors outside of the board meetings on a one-to-one basis as and when required to discuss matters of the business.

The board has both an Audit and a Remuneration Committee. The board does not consider it necessary to constitute a separate Nominations Committee and all members of the board are consulted on the potential appointment of a new director or a company secretary.

All directors can receive appropriate training as necessary and are able to take independent professional advice in relation to their duties if necessary at the Parent Company's expense. Directors are subject to re-election in accordance with the Articles of Association.

The board met nine times in the year and is provided with relevant information on financial, business and corporate matters sufficiently prior to meetings to enable it to properly discharge its duties.

Risk Identification and Management

The board drives effective risk management across the Group and retains ownership of the significant risks that are faced by the business. This includes ultimate responsibility for determining and reviewing the nature and extent of the principal risks faced by the Group and assessing the Group's risk management processes and controls. These systems and controls are designed to identify, manage and mitigate risks that the Group faces but will not eliminate all risks and therefore can provide reasonable but not absolute assurance. The board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

The Group's risk management processes include the close involvement of the executive directors in the day-to-day running of the business and regular reports submitted to and considered at meetings of the board and its committees. The board also considers employee issues, key appointments and compliance with relevant legislation.

Corporate Governance Report (continued)

Financial controls

The Group has an established framework of internal financial controls, the effectiveness of which are reviewed by the Audit Committee, the board and the executive management, including:

- well-understood and implemented processes for budgeting and forecasting;
- an overall Group strategy, including approving revenue, profit and capital budgets and plans; and for determining the financial and reporting structure of the Group;
- agreed KPIs and other business measures.

Non-financial controls

The principal elements of the Group's internal non-financial controls include:

- close management of the day-to-day activities of the Group by the executive directors and the senior management team;
- an organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation while minimising risks;
- a clearly documented and enforced approval process covering matters such as capital and operational expenditure, recruitment, tendering, and contract acceptance;
- detailed monthly reviews of major contract activities;
- central control over key areas such as material capital expenditure and banking facilities.

The Audit Committee is delegated responsibility for reviewing the Group's systems of risk management and their effectiveness on behalf of the board. These systems and processes have been in place for the year under review and remained in place up to the date of approval of the Annual Report and financial statements. The Group continues to review its system of internal controls to ensure compliance with best practice, while also having regard to its size and the resources available.

Effective Shareholder Engagement

The board has always attached a high importance to maintaining good relationships with all shareholders and this is now further emphasised via principle 2 of the QCA Code. TP Group remains committed to listening and communicating openly with its shareholders and the board holds regular meetings with institutional shareholders to keep them updated on the Group's performance, strategy, management and board membership. The board as a whole is kept informed of the views and concerns of major shareholders by briefings from the Chief Executive Officer and the Company's broker, Cenkos. Any significant investment reports from analysts are also circulated to the board. The Non-Executive Chairman is available to meet with major shareholders if required to discuss issues of importance to them.

In addition, the board welcomes as many shareholders as possible to attend the Parent Company's Annual General Meeting and encourages an open discussion after the formal proceedings. The executive directors give regular briefings to a number of analysts, who cover the Group's sector and actively encourage more analysts to follow the Group.

Ethical Behaviour and Social Responsibility

TP Group is committed to promoting a culture based on ethical values and behaviours across its business. Policies are in place covering key matters such as bribery, protection of intellectual property and sensitive information, diversity & anti-discrimination and whistleblowing. These are rigorously enforced. During 2018 the Company embarked on a companywide training programme covering key aspects of ethical business dealings and see this as an area for continuous improvement. The business developed and formally adopted a "Code of Conduct" policy which is issued to all employees and a system if being developed whereby senior managers confirm their understanding of and adherence to this Code of Conduct on an annual basis.

Corporate Governance Report (continued)

Preparation of Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company Law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU.

Under Company Law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- assess the Group's ability to continue as a going concern

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Parent Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Parent 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; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Parent Company's position and performance, business model and strategy.

Corporate Governance Report (continued)

Audit Committee

The Audit Committee, comprises three independent non-executive directors and is chaired by Philip Holland, being appointed as chair in February 2017 upon his appointment to the board. The Committee has specific terms of reference that deal with its authority and duties. It meets at least twice a year, with the executive directors, and auditor attending by invitation. The Committee reviews the independence and objectivity of the auditor each year. The Committee reviews the adequacy of the Group and the Parent Company's internal controls, accounting policies and financial reporting and provides a forum through which the Parent Company's external auditor reports to the non-executive directors. The Chair of the Committee meets periodically with the auditor away from management to discuss matters relevant to the Group.

The board has decided that the size of the Group does not justify a dedicated internal audit function. This position will be reviewed as the Group's activities increase.

Going Concern

A review of going concern is included within the accounting policies described in note 2 to the Financial Statements.

On behalf of the board

Philip Holland
Chairman, Audit Committee
1 April 2019

Remuneration Report

Unaudited Information

Remuneration Committee
The Remuneration Committee, as of April 2019, is made up of three non-executive directors and is chaired by Mr Jeremy Warner-Allen. Meetings are attended by the Chief Executive by invitation. The Remuneration Committee sets and annually reviews the terms and conditions of employment of the executive directors. The remuneration of non-executive directors is fixed by the board as a whole.

Remuneration Policy
The Parent Company's policy on executive directors' remuneration is to attract and retain high quality executives by paying competitive remuneration packages relevant to each director's role, experience and the external market. The packages include a basic salary, pension contributions, bonus scheme and share options. Share options are granted with performance conditions.

Service Agreements
Executive directors are employed on service contracts with either 6 or 12 month notice periods. Non-executive directors are appointed on three-year contracts, with no notice period.

Audited Information

Directors' Emoluments

	Basic salary or fees £000	Pension contributions £000	Other benefits £000	Total emoluments 2018 £000	Total emoluments 2017 £000
Executive					
P Cartmell	285	10	194	489	305
S Kings[1]	144	8	33	185	189
D Stroud	160	11	114	285	164
Non-executive					
A McCree	65	-	-	65	52
P Holland	32	-	-	32	27
J Warner-Allen	35	-	-	35	25
	721	29	341	1,091	762

[1] Includes a termination payment of £161,000.

Remuneration Report (continued)

Directors' Share Options
The interests of the directors, who were in office during the financial year, in options over the new Ordinary Shares at 31 December 2018 and 31 December 2017 were:

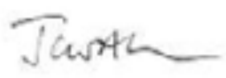
	As at 31 December 2017 number	Exercised in year number	Cancelled in year number	Issued in year number	As at 31 December 2018 number	Exercise price (p)	Lapse date
Executive							
P Cartmell	22,179,398	-	-	-	22,179,398	7.00	9 May 2027
D Stroud	9,980,729	-	-	-	9,980,729	7.00	9 May 2027
S Kings	9,980,729	-	(9,980,729)	-	-	7.00	9 May 2027
Non-executive							
A McCree	250,000	-	-	-	250,000	10.00	30 September 2024

The closing mid-market price of an Ordinary Share as quoted on the Daily Official List as published by the London Stock Exchange was 5.900p at 31 December 2018 and in the period 1 January 2018 to 31 December 2018 was a closing mid-market high of 7.750p per Ordinary Share and a low of 5.250p per Ordinary Share.

Directors' Interests
The directors who were in office during the financial year, and appointed prior to the date of this report, had the following beneficial interests in the Ordinary Shares of the Parent Company at 31 December 2018, at 31 December 2017 and at the date of this report:

	Number held at 31 December 2018 Ordinary Shares of 1 pence each	Number held at 2 April 2019 Ordinary Shares of 1 pence each	Number held at 31 December 2017 Ordinary Shares of 1 pence each
P Cartmell	3,136,105	3,136,105	3,136,105
A McCree	333,847	333,847	333,847
D Stroud	653,847	653,847	653,847
P Holland	421,978	421,978	421,978
J Warner-Allen	1,854,945	1,854,945	1,854,945

On behalf of the Remuneration Committee



Jeremy Warner-Allen
Chairman, Remuneration Committee
1 April 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TP GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of TP Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.**

We have audited the financial statements which comprise:

- the Consolidated statement of comprehensive income;
- the Consolidated and Parent company statement of financial position;
- the Consolidated statement of changes in equity;
- the Parent company statement of changes in equity;
- the Consolidated and Parent statement of cash flows; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition on long-term contracts • Valuation of intangible assets on the Westek acquisition; and • Recoverability of goodwill in the consolidated statement of financial position and recoverability of investments and intercompany debtors in the company only statement of financial position for TPG Engineering Ltd (TPGE) Within this report, any new key audit matters are identified and any key audit matters which are the same as the prior year identified.
Materiality	The materiality that we used for the group financial statements was £450,000, which equates to approximately 1.2% of revenue.
Scoping	We have performed full scope audits of all components excluding non-trading entities, providing full coverage of the Group's revenue, Group's net assets and the Group's profit before tax.
Significant changes in our approach	We have identified two new key audit matters as described below. We have removed one key audit matter relating to the provision for warranty.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have identified two new key audit matters:

- Valuation of intangible assets on the Westek acquisition. We focussed on this area because of the quantitative materiality of the acquisition and that the PPA exercise, which involves the identification of the acquired assets and liabilities and their respective fair values, requires the use of significant management judgement and estimate.
- Recoverability of goodwill in the consolidated statement of financial position and recoverability of investments and intercompany debtors in the company only statement of financial position for TPG Engineering Ltd (TPGE). We focussed on this area due to the loss-making position of TPGE in the current and prior years. The intercompany loan balance has increased by £4.6m in the current year.

We have removed one key audit matter:

- Provision for warranty. We have removed this as a key audit matter as we do not believe a significant risk of material misstatement exists as at 31 December 2018. The provision decreased by £62k as presented in note 24. The reduction is in line with management's expectations and is in line with the commercial situation as described by lead engineers at TPG Maritime.

Revenue recognition on long-term contracts

Key audit matter description

Revenue in the T&E and CaPS business segments is recognised as performance obligations are satisfied in line with IFRS15.

The key audit matter relates to contracts accounted for over time that are open and less than 90% complete at 31 December 2018. There is a risk around the accuracy of the forecast costs to complete for contracts spanning year end given the significant judgement in determining future contract costs. Open contracts less than 90% complete at 31 December 2018 represents £22.1m of revenue recognised in 2018. Forecast costs to complete are reviewed by Management and represent their best estimate of the stage of completion on open contracts at 31 December 2018. The accounting policy is described in more detail in note 2.5.

The group has accrued income of £5.6m (2017: £4.1m) as disclosed in note 16. This is a significant balance, there is a risk that accrued income is not recoverable. The presence of significant accrued income can be an indicator that revenue has been overstated.

How the scope of our audit responded to the key audit matter

We have performed the following procedures in order to address this key audit matter:

- Reviewed and challenged management's judgements relating to IFRS 15 including:
  - Identification of performance obligations based on inspection of underlying contracts and enquiries of lead engineers who are independent of finance;
  - transaction price by inspecting contracts and evaluating for unusual clauses such as presence of liquidated damages; and
  - whether revenue should be recognised over time or at a point in time. The key judgement across the group predominantly relating to the enforceable right to payment for performance completed to date per paragraph 35(c) of the standard;
- Evaluated the design and implementation of controls specific to both forecast costs to complete and IFRS 15;
- Reviewed and challenged management's conclusions on revenue recognised for a sample of contracts. We inspected underlying agreements as part of this review;
- Made enquiries of lead engineers for each project sampled to assess the stage of completion and estimated costs to complete;
- Recalculated revenue recognised on the contract as at 31 December 2018 based on stages of completion and costs incurred to date;
- Assessed a sample of contracts for post balance sheet performance and out-turn against forecasts; and
- Assessed the recoverability of a sample of accrued income by verifying to signed contract, post year-end billing/payment and third-party correspondence where appropriate.

Key observations

From the work performed, we concluded that revenue recognised on long-term contracts is appropriate.

Valuation of intangible assets on Westek acquisition

Key audit matter description

During the year ended 31 December 2018, the Group acquired Westek Technology Ltd ("Westek") for total consideration of £3.2m. As part of the purchase price allocation ("PPA") arising from the acquisition, the Group recognised goodwill and intangible assets of £0.9m and £2.4m respectively as presented in note 26.

We focussed on this area because of the quantitative materiality of the acquisition and that the PPA exercise, which involves the identification of the acquired assets and liabilities and their respective fair values, requires the use of significant management judgement and estimates. The significant judgement and estimate involved in the PPA exercise relate to the identification and valuation of intangible assets. Key judgements in the customer relationship intangible include the three-year growth rates post-acquisition, churn rates and discount rates. Management has engaged external valuation experts to assist them with the PPA exercise.

How the scope of our audit responded to the key audit matter

We assessed the competence, objectivity, and capabilities of the external expert engaged by the Group. In auditing the accounting treatment of the acquisition, we reviewed both the key terms in the sales and purchase agreement and the financial information of Westek to obtain an understanding of the transaction.

We performed the following procedures, amongst others:

- assessed the identification of intangible assets based on our understanding of the business of the acquired companies and our discussion with management on the business rationale for the acquisition;
- involved our internal specialists in assessing both the valuation methodologies and the discount rate applied by management;
- reviewed and challenged the key assumptions used in measuring the fair value of the acquired intangible assets, primarily focussed on growth rates and churn. We have assessed these inputs against both historical and forward looking data; and
- assessed the adequacy of disclosures relating to the acquisition in Note 26 to the financial statements.

Key observations

From the work performed, we concluded that intangible assets have been valued appropriately.

Recoverability of goodwill in the consolidated statement of financial position and recoverability of investments and intercompany debtors in the company only statement of financial position for TPG Engineering Ltd (TPGE)

Key audit matter description

The Group has goodwill in TPGE stated at cost of £0.6m (2017: £0.6m) as presented in note 9. Per the requirements of IAS 36 it is mandatory to perform an annual assessment of the recoverability of goodwill. Its carrying value should be assessed in aggregate with other non-current assets against the recoverable value of the cash-generating unit (CGU). The carrying value for this recoverability test, inclusive of other non-current assets, is £2.9m.

	The company holds an investment in TPGE stated at cost of £1.6m and intercompany balances owing by TPGE amounting to £6.8m (net of £0.5m impairment recognised in 2017). This balance has increased by £4.6m in the current year. Due to the loss-making position of TPGE in the current and prior years, there is an indicator of possible impairment. As a result of this indicator management has performed a recoverability test on these balances. The valuation of the investment and intercompany balances requires the Company to estimate the future recoverable amount either through value in use (VIU) or fair value less costs to sell. Management has chosen to use a VIU approach, which is consistent with prior years. Management apply judgement in determining appropriate assumptions used in computing the recoverable amount. On this basis management's valuation has concluded that there is no impairment in the consolidated statement of financial position and an impairment charge of £4.7m in the company only statement of financial position. As highlighted in note 13 reasonably possible downsides, as determined by management, would cause a further impairment of £0.8m to the intercompany loan and would result in an impairment charge to goodwill of £0.1m.

How the scope of our audit responded to the key audit matter	Our procedures in relation to the valuation of goodwill, investment in subsidiaries and intercompany balances owed by TPGE included, among others:
	
	o Assessed management's process and controls for performing recoverability tests;
	
	o Evaluated management's computation and assumptions used in determining the recoverable amount of TPGE, which was determined on a VIU basis using latest approved board forecasts;
	
	o Assessed the reasonableness of the valuation methodology performed;
	
	o Challenged the key judgement in the VIU model, which is the trading performance of the business in 2019 and 2020. Management has forecast a return to a cash generative position for TPGE in those years. We have performed our assessment considering factors such as historical accuracy of budgeting, closing order book, order intake, likely impacts of Brexit and post year-end performance in order to conclude on the appropriateness of the short-term growth rates;
	
	o Challenged other assumptions in the VIU model such as:
	    o long-term growth rates of 1.5% to third-party evidence; and
	    o the discount rate of 11.5% to our valuation's team range. We also considered country-specific risk factors such as Brexit uncertainty as part of this assessment;
	
	o Assessed whether management's reasonably possible downsides is based on appropriate rationale.

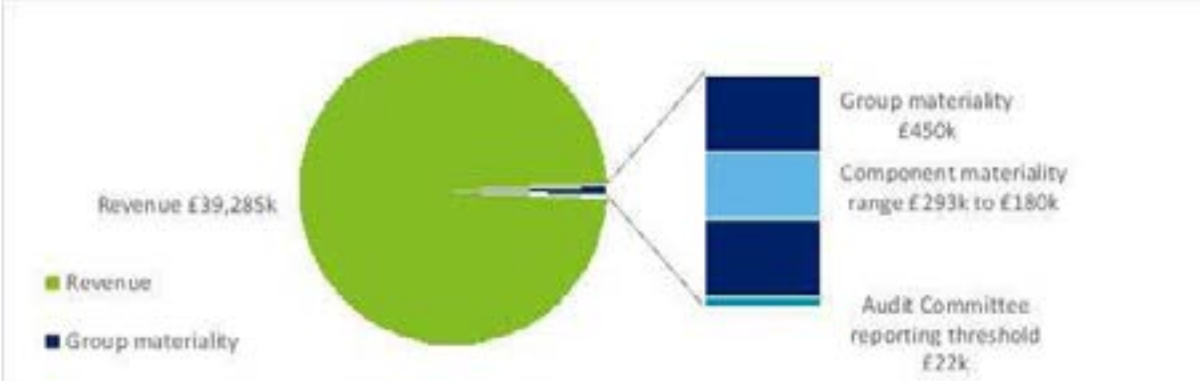
Key observations	From the work performed, we have concluded that management's assessment of the recoverability of the following balances is appropriate: o goodwill in the consolidated statement of financial position; and o investments and intercompany debtors (net of impairment) in the company only statement of financial position.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£450,000 (2017: £400,000)	£180,000 (2017: £160,000)
Basis for determining materiality	Our materiality of £450,000, which equates to 1.2% of consolidated revenue. We have determined materiality based predominantly on revenue.	Our materiality of £180,000 equates to 0.7% of the parent company equity. This has been capped at 40% of Group materiality.
Rationale for the benchmark applied	In determining our benchmark we considered the focus of the principal users of the financial statements and the stability of the metrics. Revenue is a key performance measure for the Group, as this is one of the key metrics reported to the markets and considered to be a key share price driver. We considered alternative benchmarks such as net assets, profit/loss before tax and adjusted operating profit. Loss before tax and adjusted operating profit are considered to be too volatile year-on-year for us to form a consistent and representative view on materiality. We therefore concluded that the approach above is the most appropriate basis on which to determine materiality.	The parent company's principal activity is not to generate revenue, but more to provide the subsidiary entities with expertise through the experience of the Board and Management. As such, the investments are the key component of the individual financial statements and therefore equity is deemed to be a more representative and stable view of how the company is performing.



We agreed with the audit committee that we would report to them all audit differences in excess of £22,000 (2017: £20,000) as well as differences below that threshold that in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment our group audit scope covered all components, inclusive of the parent company but excluding dormant entities of the Group. All of these companies were subject to a full audit. These components represent the principal business units and account for 100% of the Group's net assets, revenue and pre-tax profit. They were selected in order to provide an appropriate basis for undertaking audit work to address the key matters identified above. Our audit work at the components was executed at levels of materiality applicable to each individual entity which were lower than group materiality, ranging between £180,000 and £292,500 (2017: £160,000 and £300,000).

At the parent level we tested the consolidation process. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors 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 for the audit of the financial statements

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 error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Use of our report

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.

Simon Olsen FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
1 April 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018[2] £'000	2017 Restated[1] £'000
Revenue	3	**39,037**	27,915
Cost of sales		**(27,806)**	(20,121)
Gross profit		**11,231**	7,794
Administrative expenses		**(11,261)**	(8,760)
Operating loss	4	**(30)**	(966)
Adjusted operating profit	3	**3,974**	2,148
Depreciation, amortisation and impairment		**(2,377)**	(1,842)
Acquisition-related costs		**(657)**	(242)
Non-operating costs		**(805)**	(655)
Share based payments		**(165)**	(375)
Operating loss		**(30)**	(966)
Net finance cost	6	**(80)**	(65)
Loss before income tax		**(110)**	(1,031)
Income tax credit / (charge)	7	**285**	(122)
Total comprehensive income / (loss) for the year attributable to shareholders		**175**	(1,153)
Earnings / (loss) per share expressed in pence per share			
Basic and diluted earnings / (loss) per share	8	**0.02**	(0.20)

All comprehensive income relates to shareholders of the Parent Company and all amounts relate to continuing activities. The notes on pages 70 to 112 form part of these financial statements.

1 The Group has applied IFRS 15 and IFRS 9 at 1 January 2018 and has restated 2017 as disclosed in note 2.1
2 The Group has applied IFRS 16 at 1 January 2018 and is not required to restate 2017 as disclosed in note 2.1

Consolidated and Parent Company Statement of Financial Position

At 31 December 2018

		Group		Parent Company	
		2018[2]	2017 Restated[1]	2018[2]	2017
	Note	£'000	£'000	£'000	£'000
ASSETS					
Non-current assets					
Goodwill	9	**5,289**	4,386	**-**	-
Other intangible assets	10	**12,800**	11,759	**85**	180
Property, plant and equipment	11	**1,401**	2,126	**46**	33
Right-of-use assets[2]	12	**5,423**	-	**94**	-
Investments	13	**-**	-	**18,806**	15,435
Amounts owed by EBT	14	**-**	-	**95**	96
		24,913	18,271	**19,126**	15,744
Current assets					
Inventories	15	**2,727**	6,542	**-**	-
Trade and other receivables	18	**4,295**	8,114	**4,823**	3,130
Amounts due from contract customers	16	**5,596**	4,084	**-**	-
Taxation recoverable		**87**	10	**-**	-
Cash and bank balances	17	**22,413**	21,931	**10,505**	17,617
		35,118	40,681	**15,328**	20,747
Total assets		**60,031**	58,952	**34,454**	36,491
LIABILITIES					
Current liabilities					
Trade and other payables	21	**(10,614)**	(8,441)	**(8,312)**	(5,833)
Amounts due to contract customers	16	**(4,837)**	(10,669)	**-**	-
Obligations under hire purchase and lease contracts	22	**(739)**	(211)	**(38)**	-
		(16,190)	(19,321)	**(8,350)**	(5,833)
Non-current liabilities					
Deferred taxation	23	**(1,648)**	(1,425)	**-**	-
Obligations under hire purchase and lease contracts[2]	22	**(5,198)**	(747)	**(59)**	-
Provisions	24	**(499)**	(561)	**(10)**	(10)
		(7,345)	(2,733)	**(69)**	(10)
Total liabilities		**(23,535)**	(22,054)	**(8,419)**	(5,843)
Net assets		**36,496**	36,898	**26,035**	30,648
EQUITY					
Share capital	25	**7,586**	7,586	**7,586**	7,586
Share premium		**17,438**	17,438	**17,438**	17,438
Own shares held by the EBT		**(561)**	(561)	**-**	-
Share-based payments reserve		**1,441**	1,553	**1,441**	1,459
Retained earnings		**10,592**	10,882	**(430)**	4,165
Total equity		**36,496**	36,898	**26,035**	30,648

1 The Group has applied IFRS 15 and IFRS 9 at 1 January 2018 and has restated 2017 as disclosed in note 2.1

2 The Group has applied IFRS 16 at 1 January 2018 and is not required to restate 2017 as disclosed in note 2.1

The financial statements were approved and authorised for issue by the board of directors and were signed on its behalf on 1 April 2019. The notes on pages 70 to 112 form part of these financial statements.

Phil Cartmell
Chief Executive
(Company number: 3152034)

Derren Stroud
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Own shares held by EBT £'000	Share-based payments reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	**4,225**	**-**	**(561)**	**1,178**	**14,821**	**19,663**
IFRS 15 restatement[1]	-	-	-	-	(2,786)	(2,786)
Balance at 1 January 2017 restated	**4,225**	**-**	**(561)**	**1,178**	**12,035**	**16,877**
Share issue	3,361	17,438	-	-	-	20,799
IFRS 2 share option charge	-	-	-	375	-	375
Total comprehensive loss restated	-	-	-	-	(1,153)	(1,153)
Balance at 31 December 2017 restated	**7,586**	**17,438**	**(561)**	**1,553**	**10,882**	**36,898**
IFRS 16 cumulative adjustment	-	-	-	-	(742)	(742)
Share options expired				(277)	277	-
IFRS 2 share option charge	-	-	-	165	-	165
Total comprehensive income	-	-	-	-	175	175
Balance at 31 December 2018	**7,586**	**17,438**	**(561)**	**1,441**	**10,592**	**36,496**

1 The Group has applied IFRS 15 at 1 January 2018 and has restated 2017 as disclosed in note 2.1

The notes on pages 70 to 112 form part of these financial statements.

Parent Company Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Share-based payments reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	4,225	-	1,084	7,314	12,623
Share issue	3,361	17,438	-	-	20,799
IFRS 2 share option charge	-	-	375	-	375
Total comprehensive loss	-	-	-	(3,149)	(3,149)
Balance at 31 December 2017	**7,586**	**17,438**	**1,459**	**4,165**	**30,648**
Share options expired	-	-	(183)	183	-
IFRS 2 share option charge	-	-	165	-	165
Total comprehensive loss	-	-	-	(4,778)	(4,778)
Balance at 31 December 2018	**7,586**	**17,438**	**1,441**	**(430)**	**26,035**

The notes on pages 70 to 112 form part of these financial statements.

Consolidated and Parent Company Statement of Cash Flows

For the year ended 31 December 2018

	Note	Group 2018 £'000	Group 2017 Restated £'000	Parent Company 2018 £'000	Parent Company 2017 £'000
Operating activities					
Loss before income tax		**(110)**	(1,031)	**(5,114)**	(3,149)
Adjustments for:					
Depreciation, amortisation and impairment		**2,377**	1,842	**193**	59
Finance cost/(income)		**81**	65	**(56)**	(14)
Share-based payment expense		**165**	375	**165**	375
Increase in impairment on loan to the EBT	13	**-**	-	**2**	8
Provision against long term inter-company loan	13	**-**	-	**4,876**	1,055
Decrease / (increase) in inventories		**3,141**	(2,106)	**-**	-
Decrease / (increase) in trade and other receivables		**1,490**	(5,763)	**(6,100)**	(146)
(Decrease)/increase in trade and other payables		**(1,277)**	2,828	**2,181**	1,370
Increase / (decrease) in provisions		**62**	(540)	**97**	-
		5,929	(4,330)	**(3,756)**	(442)
Income tax paid		**(211)**	(87)	**-**	-
Net cash generated from operating activities		**5,718**	(4,417)	**(3,756)**	(442)
Investing activities					
Acquisition of subsidiary, net of cash acquired	26	**(2,953)**	(2,564)	**(3,000)**	(3,071)
Acquisition of subsidiary - payment of earn out		**(300)**	-	**(300)**	-
Interest received		**60**	14	**60**	14
Purchase of property, plant and equipment[1]		**(864)**	(908)	**(39)**	(35)
Purchase of computer software		**(79)**	(47)	**(35)**	(47)
Long term loan to subsidiary		**-**	-	**-**	(315)
Net cash used in investing activities		**(4,136)**	(3,505)	**(3,314)**	(3,454)
Financing activities					
Proceeds from issue of ordinary share capital		**-**	20,799	**-**	20,799
Interest payable		**(254)**	(26)	**(4)**	-
Repayment of hire purchase and lease liabilities		**(846)**	(80)	**(38)**	-
Net cash (used in) / from financing activities		**(1,100)**	20,693	**(42)**	20,799
Net increase/(decrease) in cash and cash equivalents		**482**	12,771	**(7,112)**	16,903
Cash and cash equivalents at beginning of year		**21,931**	9,160	**17,617**	714
Cash and cash equivalents at end of year		**22,413**	21,931	**10,505**	17,617

[1] The Group has applied IFRS 16 at 1 January 2018 and is not required to restate 2017 as disclosed in note 2.1

The notes on pages 70 to 112 form part of these financial statements.

Notes to the Financial Statements

1 Nature of operations

The Group is a professional services and technology partner to global prime contractors that are active in defence, security and intelligence, space and energy programmes. The Group advises on management and technology solutions and deliver with advanced manufacturing skills and expertise.

The Group's team links world-class skills in complex technologies with modern design and manufacturing facilities to provide a fully balanced and agile support network to our customers and partners wherever they may be.

The Group consists of two interlinked business streams:

- **Consulting & Programme Services** - advising clients on strategic problems and implementing technology-driven solutions
- **Technology & Engineering** - the capability to design, manufacture and support mission-critical systems

TP Group plc (the "Parent Company") is the Group's ultimate parent company, which is incorporated under the Companies Act and domiciled in the United Kingdom. The address of the registered office of the Parent Company is Cody Technology Park, Old Ively Road, Farnborough, Hampshire, GU14 0LX. The Parent Company's shares are listed on the Alternative Investment Market of the London Stock Exchange.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

The consolidated and Parent Company financial statements have been prepared in accordance with applicable International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board as adopted by the European Union. The Group presents the consolidated financial statements in pounds sterling, which is the Parent Company's functional and presentation currency, and all values are rounded to the nearest thousand except when otherwise indicated.

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Group and Parent Company are set out below. The accounting policies adopted are consistent with those of the previous financial year with exception of matters noted below.

Changes in accounting policies

New and amended IFRS standards that are effective for the current year

The Group has initially applied IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases" from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

IFRS 9 Financial Instruments

As a result of the adoption of IFRS 9 "Financial Instruments", the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements which require impairment of financial assets to be presented in a separate line item in the income statement. Previously, the Group's approach was to include the impairment of trade receivables in other expenses. Consequently, the Group reclassified impairment losses amounting to £32,000, recognised under IAS 39 "Financial Instruments: Recognition and Measurement",, from 'other expenses' to 'impairment loss on trade receivables and contract assets' in the Income statement for the year ended 31 December 2017.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policies *(continued)*

i) Classification and measurement of financial assets

The Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have been restated where appropriate.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost and contract assets, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in additional allowance for impairments as follows:

	£'000
Loss allowance at 31 December 2017 under IAS 39	-
Additional impairment recognised at 1 January 2017	32
Loss allowance at 1 January 2018 under IFRS 9	32

iii) Hedge accounting

The Group does not apply hedge accounting.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers retrospectively, applying the practical expedient method under which contracts beginning and ending in 2017 or that were completed prior to 1 January 2017 are not restated. The financial impact to comparative periods on adoption of this standard is described in the tables below.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of preparation *(continued)*
Changes in accounting policies *(continued)*
IFRS 16 Leases
The Group adopted IFRS 16 on 1 January 2018. Rather than apply IFRS 16 retrospectively in accordance with IAS 8, the Group is permitted to apply IFRS 16 c5(b) under which comparative information is not restated. The Group has recognised the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2018, the date of initial application.

The adoption of IFRS 16 has resulted in a right-of-use asset valued at £4.5m being recognised at 1 January 2018, with an opening lease liability of £5.2m and a cumulative loss adjustment to retained earnings of £0.7m. A depreciation expense of £0.5m and an interest expense of £0.2m for the year to 31 December 2018 has been recognised, replacing the operating expense in respect of rental payments of £0.6m. The net impact is a £0.1m reduction in operating loss and a £0.2m improvement in adjusted operating profit for year to 31 December 2018. A weighted average incremental borrowing rate of 4% has been applied to property leases and 5% on motor vehicles and other office equipment.

Re-measurement of accounting for acquisition of Polaris Consulting (Holdings) Limited
In 2018 the Group finalised its accounting for the acquisition including agreeing the deferred consideration with the sellers of Polaris Consulting Holdings Ltd and identifying further pre-acquisition information which required a revision to the provision accounting disclosed in the financial statements for the year ended 31 December 2017. See note 26.

The tables below show the effect of IFRS 15 and re-measurement of the acquisition accounting for Polaris Consulting (Holdings) Limited on the balance sheet as at 31 December 2017, and the effect on the Income statement for the year ended 31 December 2017. Opening balance sheet adjustments at 1 January 2017 have been presented in the Consolidated Statement of Changes in Equity.

Consolidated Statement of Financial Position
At 31 December 2017

	As previously reported £'000	IFRS 15 adjustment £'000	Fair value revision of identified assets and liabilities acquired £'000	Restated £'000
Non-current assets				
Goodwill	4,170	-	216	4,386
Current assets				
Inventories	230	6,312	-	6,542
Trade and other receivables	13,798	(1,600)	-	12,198
Total assets	**54,024**	**4,712**	**216**	**58,952**
Current liabilities				
Trade and other payables	(10,962)	(7,932)	(216)	(19,110)
Total liabilities	**(13,906)**	**(7,932)**	**(216)**	**(22,054)**
Net assets	**40,118**	**(3,220)**	**-**	**36,898**
Equity				
Retained earnings	14,102	(3,220)	-	10,882
Total equity	**40,118**	**(3,220)**	**-**	**36,898**

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of preparation *(continued)*
Changes in accounting policies *(continued)*
In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IFRS 2 (amendments) *"Classification and Measurement of Share-based Payment Transactions";*
- IAS 40 (amendments) *"Transfers of Investment Property";*
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle;
- Amendments to IAS 28 *"Investments in Associates and Joint Ventures"; and*
- IFRIC 22 *"Foreign Currency Transactions and Advance Consideration".*

Consolidated income statement
Year ended 31 December 2017

	As previously reported £'000	IFRS 15 adjustment £'000	Fair value revision of identified assets and liabilities acquired £'000	Restated £'000
Revenue	**29,460**	**(1,545)**	**-**	**27,915**
Cost of sales	(21,232)	1,111	-	(20,121)
Gross profit	**8,228**	**(434)**	**-**	**7,794**
Operating loss	**(532)**	**(434)**	**-**	**(966)**
Adjusted operating profit	**2,582**	**(434)**	**-**	**2,148**
Loss before income tax	**(597)**	**(434)**	**-**	**(1,031)**
Total comprehensive loss for the year attributable to shareholders	**(719)**	**(434)**	**-**	**(1,153)**
Basic and diluted loss per share	(0.14)	(0.06)	-	(0.20)

Other
At the date of authorisation of these financial statements, the following other Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Annual Improvements to IFRS Standards 2015-2017 cycle;
- IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019);
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective 1 January 2019);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective 1 January 2019); and
- Amendments to IAS 19 Employee Benefit Plan Amendment, Curtailment or Settlement (1 January 2019).

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of preparation *(continued)*
Changes in accounting policies *(continued)*
At the date of authorisation of these financial statements, the directors have considered the other standards and interpretations which have not been applied in these financial statements, were in issue but not yet effective (and in some cases, had not yet been adopted by the EU). Application of these standards may result in some changes in presentation of information within the Group's financial statements, but they are not expected to have a material impact on the results of the Group.

Going concern
The Board has reviewed the potential impact of Brexit. Although the final outcome is unclear the business has considered the impact of labour mobility, regulatory issues, taxation and foreign exchange. Due to the nature of the Group's activities and our operating model, the Board believes that the going concern of the business will not be materially impacted by Brexit, irrespective of the form it takes.

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future, and accordingly continue to adopt the going concern basis in preparing the accounts. In reaching this conclusion, the directors have considered forecasts that cover a period of at least twelve months from the date of the approval of these financial statements and mitigating actions available to them, including the ability of management to make certain reductions to the Group's discretionary expenditure if required.

2.2 Significant management judgements in applying accounting policies
The directors do not believe there to be any material judgements made in the process of applying the Group's accounting policies which are likely to lead to a material change to the amounts recognised in the consolidated financial statements in the next twelve months.

2.3 Key sources of estimation uncertainty
The following are the key assumptions concerning the future activities of the Group, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

i) Impairment of intangible assets, goodwill and investments in subsidiaries
Determining whether intangible assets and goodwill are impaired requires an estimation of the value in use of the cash-generating units to which intangible assets and goodwill have been allocated. Investment in subsidiaries are based on the estimation of recoverability based on the value in use calculation of the cash-generating unit invested in. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. See notes 9 and 13.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.4 Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Parent Company and all entities controlled by the company (its subsidiaries) and the TP Group Employee Benefit Trust (see note 25) made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in to line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Subsidiary undertakings are entities over which the Group has the power to control the financial and operating policies to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

The TP Group Employee Benefit Trust, which is managed by an independent trustee, is an employee share scheme established for the benefit of and as an incentive for the employees of the Group.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

The Parent Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented its Statement of Comprehensive Income. The Parent Company's result for the year was a loss of £4.8m (2017: £3.1m).

2.5 Revenue
The Group's operations generate revenues through both the provision of services and the production of high integrity equipment.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer, excluding amounts collected on behalf of third parties, sales related taxes and trade discounts. The Group recognises revenue when it transfers control of a product or service to a customer.

Sale of products
Revenue from the sale of products is recognised when control of the product has transferred, being when the goods have been delivered to the customers specified location.

Provision of services
The Group provides advisory, technical, project management and development services to customers for specialised business operations and technology-driven solutions. Dependant on the exact terms of the customer contract revenue is recognised at a point-in-time or over-time. Performance obligations are identified against each customer contract. Point in time revenue recognition is triggered when the performance obligation is fully satisfied, and the customer is in control of any deliverable. Over time revenue recognition for each performance obligation is based on the stage of completion. The directors have assessed that the stage of completion is determined by the costs incurred at the end of the reporting period as a proportion of the total costs expected to deliver the performance obligation. The directors consider that the input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.5 Revenue *(continued)*

Design and manufacture of high-integrity equipment

The Group designs and manufactures mission-critical systems under long-term contracts with customers. Dependant on the exact terms of the customer contract revenue is recognised at a point-in-time or over-time. Point in time revenue recognition is triggered when the performance obligation is fully satisfied, and the customer is in control of any deliverable. Over time revenue recognition for each performance obligation is based on the stage of completion. Under terms where the Group has an enforceable right to payment for work done, revenue from performance on these contracts is therefore recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date related to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

The Group becomes entitled to invoice customers based on achieving a series of performance-related milestones. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method, then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in the design and manufacture of high-integrity equipment with customers as the period between recognition of revenue and under the cost-to-cost method and milestone payment is always less than one year.

2.6 Cost of sales

Cost of sales represents the actual costs of materials, direct labour and overheads incurred with reference to the stage of completion of the contract at the reporting date.

2.7 Finance income

Finance income represents interest earned on cash deposits that is earned over the relevant financial period and 'mark to market' adjustments in respect of derivative financial assets for forward currency exchange contracts.

2.8 Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets, less their residual values over their useful lives (as below), using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any change in estimate accounted for on a prospective basis.

- Computer equipment — 33% per annum
- Office furniture and fittings — 20% per annum
- Plant and machinery — 10% to 20% per annum

Assets held under finance leases are reported in the Statement of Financial Position as Right of Use Assets, and include for 2018 the impact of IFRS 16 (refer to note 2.1). These assets depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.8 Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item or property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount and is recognised in the Consolidated Statement of Comprehensive Income.

2.9 Leases

Assets held under finance lease, are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as a finance lease obligation. IFRS 16 has been adopted as at 1 January 2018 resulting in the opening liability increasing by £5.2m.

Lease payments are apportioned between the finance lease expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance lease expenses are recognised immediately in the Consolidated Statement of Comprehensive Income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

2.10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

i) Current tax

Current taxation is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the Consolidated Statement of Comprehensive Income because items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enactive by the end of the reporting period.

Income tax recoverable in respect of R&D tax credits is recognised when the decision has been taken to claim such amounts in cash. The Group has made claims for R&D tax credits under the large company Research and Development Expenditure Credit (RDEC) Scheme.

The income tax recoverable in respect of R&D cash tax credits is based upon management estimates, judgements and assumptions considered reasonable at the time but the actual income tax recoverable may differ from those estimates.

ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are no recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.10 Taxation *(continued)*
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

iii) Current and deferred tax for the reporting period
Current and deferred tax are recognised in profit or loss, except where they related to other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.11 Cash and bank balances
Cash and bank balances comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.12 Financial instruments
Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group or Parent Company becomes a party to the contractual provisions of an instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added or deducted from the fair value of the financial assets or liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Purchases or sales of financial assets in the normal course of business are recognised and derecognised on a trade date basis.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets
Debt instruments that meet the following conditions are measured subsequently at amortised cost:
- the financial asset is held within the business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.12 Financial instruments *(continued)*
Foreign exchange gains and losses
The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'gains and losses on foreign exchange' line item (note 6).

Impairment of financial assets
The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at fair value through other comprehensive income, including lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group estimates expected credit losses for trade receivables, contract assets and lease receivables based on the businesses historical credit loss experience, adjusted for factors that are specific to the debtors and general economic conditions.

(i) Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.12 Financial instruments *(continued)*
Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has a strong external credit rating or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default
The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies (continued)

2.12 Financial instruments *(continued)*
(iv) Write-off policy
The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income statement.

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2.13 Financial liabilities and equity
Financial liabilities
The Group and Parent Company's financial liabilities comprise trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest rate method except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss. Discounting is omitted where the effect of discounting is immaterial.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.13 Financial liabilities and equity *(continued)*

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange risks.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in the Consolidated Statement of Comprehensive Income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing or the recognition in the Consolidated Statement of Comprehensive Income depends on the nature of the hedge relationship.

i) De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity

Equity comprises the following:

- "Share capital" which represents the nominal value of equity shares;
- "Share premium" which represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;
- "Own shares held by Employee Benefit Trust" which represents the costs of purchasing own shares held by the Employee Benefit Trust;
- "Share-based payment reserve" which represents equity-settled share-based employee remuneration until such share options are exercised or lapse; and
- "Retained earnings" which represents retained profits and losses.

2.14 Employee benefits

i) Retirement benefit costs

The Group operates a defined contribution stakeholder pension scheme for employees. Payments to the defined contribution retirement benefit plans are recognised as an expense when the employees have rendered service entitling them to contributions.

ii) Share-based payment

All equity-settled share-based payments are measured at fair value at the date of grant, which is ultimately recognised as an expense in the Consolidated Statement of Comprehensive Income with a corresponding credit to reserves.

Options with only time-based vesting conditions are valued using a Black-Scholes model. Share options issued with market based vesting conditions are measured using the Monte Carlo method. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Market vesting conditions are factored into the fair value of the options granted.

2.14 Employee benefits *(continued)*

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the number of share options expected to vest. This estimate takes into account a number of factors including performance conditions applying to the relevant options. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

iii) Employee benefit trust

The assets and liabilities of the Employee Benefit Trust ("EBT") have been included in the Group accounts.

Any assets held by the Employee Benefit Trust cease to be recognised in the Consolidated Statement of Financial Position when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the Employee Benefit Trust are shown as a deduction against consolidated equity. The proceeds from the sale of own shares held increase consolidated equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Consolidated Statement of Comprehensive Income.

(iv) Short-term employee benefit costs

The undiscounted amount of short-term benefits attributable to services that have been rendered in the period are recognised as an expense, unless specifically required or permitted within the scope of IFRS reporting to be included in the cost of an asset. Any difference between the amount of cost recognised and cash payments made is treated as a liability or prepayment as appropriate.

2.15 Foreign currency translation

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognised in the Consolidated Statement of Comprehensive Income in the period in which they arise.

2.16 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-to-date fair values of the assets transferred to the Group, liabilities incurred by the Group to the former owners of the acquired and the equity interests issued by the Group in exchange for control of the acquired. Acquisition related costs are generally recognised in the Consolidated Statement of Comprehensive Income as incurred.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.16 Business combinations *(continued)*
At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value, except deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements which are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in the Statement of Comprehensive Income as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at the acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

2.17 Goodwill
Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 2.16 above) less accumulated impairment losses, if any.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.18 Intangible assets
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives (being 3, 5, 10 and 15 years). The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.18 Intangible assets *(continued)*
i) Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

ii) De-recognition of intangible assets
An intangible asset is derecognised on disposal, or when no economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is recognised.

2.19 Impairment of tangible and intangible assets other than goodwill
At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the Income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies *(continued)*

2.20 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

2.21 Government Grants

Government grants are recognised at fair value when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the Income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Grants related to purchase of assets are treated as deferred income in the Statement of Financial Position and allocated to the Income statement and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

2.22 Non-operating costs

Items which are material either because of their size or their nature, are presented within their relevant consolidated income statement category, but highlighted separately on the face of the income statement within the section showing adjusted operating profit (as detailed and set out in note 3); to help provide a better picture of the Group's underlying performance. The tax and cash flow implications of non-operating items are identified wherever necessary.

2.23 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Financial Statements (continued)

3 Segmental information

3.1 Segment revenues and results

The following is an analysis of the Group's revenue and results from the continuing operations by reportable segment.

	2018 £'000	2017 Restated £'000
Revenue		
T&E	**27,766**	22,149
CaPS	**11,271**	5,766
Group revenue	**39,037**	27,915
Segment operating result		
T&E	**2,571**	2,300
CaPS	**(484)**	(1,223)
Central unallocated costs	**(2,117)**	(2,043)
Group loss from operations	**(30)**	(966)
Finance cost	**(80)**	(65)
Loss before income tax	**(110)**	(1,031)
Income tax credit / (charge)	**285**	(122)
Profit / (loss) after tax	**175**	(1,153)

Segment revenue reported above represents revenue generated from external customers.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit or loss represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, other gains and losses, as well as finance costs.

Notes to the Financial Statements (continued)

3 Segmental information *(continued)*

3.1 Segment revenues and results *(continued)*

	T&E £'000	CaPS £'000	Central unallocated costs £'000	Group £'000
2018				
Segment operating result	**2,571**	**(484)**	**(2,117)**	**(30)**
Depreciation, amortisation and impairment	1,629	555	193	2,377
Acquisition-related costs	-	-	657	657
Non-operating costs	734	104	(33)	805
Share based payments	-	-	165	165
Adjusted operating profit/ (loss)[1]	**4,934**	**175**	**(1,135)**	**3,974**
2017				
Segment operating result	**2,300**	**(1,223)**	**(2,043)**	**(966)**
Depreciation, amortisation and impairment	1,602	10	230	1,842
Acquisition-related costs	-	-	242	242
Non-operating costs	124	420	111	655
Share based payments	-	-	375	375
Adjusted operating profit/ (loss)[1]	**4,026**	**(793)**	**(1,085)**	**2,148**

1 Adjusted operating profit is defined as operating loss adjusted to add back depreciation of property, plant and equipment and right-of-use assets, amortisation of intangible assets and impairment gains or losses on non-current assets, changes in fair value of contingent consideration, acquisition consideration accounted for as employment costs owing to on-going service conditions, any other acquisition-related charges, share based payment charges and non-operating costs. Non-operating costs include £579,000 in respect of termination payments. Non-operating costs are those items believed to be exceptional in nature by virtue of their size and or incidence. The directors of the Company believe this measure is more reflective of the underlying performance of the Group than equivalent GAAP measures. This is primarily due to the exclusion of non-cash items, such as share-based payments, impairment, depreciation and amortisation, as well as acquisition and non-operating costs. This provides shareholders and other users of the financial statements with the most representative year-on-year comparison of operating performance. This measure and the separate components remain consistent with 2017.

Notes to the Financial Statements (continued)

3 Segmental information *(continued)*

3.2 Geographical segments

The following is an analysis of the Group's revenue from continuing operations from its products and services:

	2018 £'000	2017 £'000
Geographical analysis – revenue		
United Kingdom	**33,979**	23,581
Europe excluding United Kingdom	**1,868**	1,996
Asia	**2,729**	1,978
Middle East	**-**	341
Rest of the World	**461**	19
Total revenue	**39,037**	27,915

Revenue from continuing operations from external customers and non-current assets are all generated from operations in the UK. All segment assets are located in the UK.

Information about major customers
Revenue includes sales from customers who contributed 10% or more to the Group's revenue:

	2018 £'000	2017 £'000
Engineering		
Customer 1	**9,910**	6,794
Customer 2	**9,776**	4,747
Total revenue	**19,686**	11,541

Notes to the Financial Statements (continued)

4 Operating loss

The Group operating loss for the year is stated after charging the following:

Group	2018 £'000	2017 £'000
Staff costs		
Wages and salaries	**10,516**	8,835
Social security costs	**1,230**	1,016
Other pension costs	**694**	595
Share based payment	**165**	375
	12,605	10,821
Amortisation of intangible assets	**1,435**	1,132
Impairment of intangible assets	**-**	192
Depreciation of property, plant and equipment and right-of-use assets	**855**	220
Impairment of property, plant and equipment	**-**	301
Impairment of trade receivables	**87**	-
Auditor's remuneration:		
Audit fees		
fees payable for the audit of the consolidated and Company only financial statements	**58**	42
fees payable to the audit of the subsidiary companies	**99**	61
Total audit fees	**157**	103
Non-audit fees		
Fees payable for interim agreed upon procedures	**8**	5
Tax advisory services	**-**	20
Total auditor remuneration	**165**	128

Share-based payment expense of £165,000 (2017: expense £375,000) all arises from transactions accounted for as equity-settled share-based payment transactions and are non-cash in nature.

Staff numbers

The average number of employees, including directors, employed by the Group during the year was as follows:

Group	2018 Number	2017 Number
Engineering	**144**	140
Business development	**16**	17
Administration	**54**	44
	214	201

Notes to the Financial Statements (continued)

4 Operating loss *(continued)*

Retirement benefits

The Group operates a defined contribution retirement benefit plans for all qualifying employees of the Group. The assets of these plans are held separately from those of the Group in separately administered funds.

The total expense recognised in profit or loss of £694,000 (2017: £595,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2018, contributions of £62,000 (2017: £88,000) due in respect of the 2018 (2017: £nil) reporting remained outstanding. The amounts were paid subsequent to the end of the reporting period.

5 Directors' emoluments

Key management of the Group are members of the board of directors. Key management personnel remuneration includes the following expenses:

Group	2018 £'000	2017 £'000
Emoluments[1]	**721**	662
Pension contributions paid to defined contribution pension schemes	**29**	33
Other benefits	**341**	67
	1,091	762

[1] Includes a termination payment of £161,000 in 2018.

During 2018 three Directors (2017: three) accrued pension benefits during the year. No director exercised share options during the year (2017: none).

Remuneration of the highest paid director included above is as follows:

Group	2018 £'000	2017 £'000
Emoluments	**285**	257
Pension contributions	**10**	12
Other benefits	**194**	38
	489	307

Notes to the Financial Statements (continued)

6 Net finance cost

Group	2018 £'000	2017 £'000
Interest received on bank deposits	**60**	14
Interest paid on hire purchase and lease contracts	**(240)**	-
Bank interest paid	**(13)**	-
Gain / (loss) on foreign exchange derivative financial assets	**113**	(79)
	(80)	(65)

7 Taxation

Credit / (charge) to the Consolidated Statement of Comprehensive Income

Group	2018 £'000	2017 £'000
UK corporation tax at 19% (2017: 19.25%)	**(2)**	(137)
Adjustments in respect to prior year	**103**	24
	101	(113)
Deferred tax:		
Arising on amortisation of acquired intangibles	**184**	130
Reversal of timing differences	**-**	(45)
Release of deferred tax asset	**-**	(95)
Adjustments in respect to prior year	**-**	1
Tax credit / (charge) for the year	**285**	(122)

The tax charge for the period is lower than (2017 – lower than) the standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are explained as follows:

Group	2018 £'000	2017 £'000
Loss on ordinary activities before tax	**(110)**	(1,031)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**21**	198
Effects of:		
Expenses not deductible for tax purposes	**(179)**	(167)
Income not taxable	**500**	23
Other timing differences	**(73)**	(97)
Share based payments	**(31)**	(65)
Adjustment to deferred tax in respect to change in tax rates	**(22)**	(8)
Deferred tax not recognised	**(151)**	(32)
Deferred tax adjustment IFRS 16	**119**	
Adjustment in respect of prior years	**101**	26
Tax credit/(charge) for the year	**285**	(122)

Notes to the Financial Statements (continued)

7 Taxation *(continued)*

At the reporting date, the Group has approximately £20.5m (2017: £20.5m) of unrelieved tax losses for offset against future taxable profit. No deferred tax asset has been recognised in respect of the £20.5m losses (2017: £20.5m), TPG Design & Technology Limited created £18.1m of these losses through a trade that is no longer being pursued. Losses can only be utilised against the same trade and management do not expect there to be sufficient trade to recover these losses against future taxable profit. The remaining £2.4m has been generated through ongoing trade but has not been recognised due to the uncertainty of timing of the generation of future taxable profits.

8 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2018 is based upon a profit after tax of £175,000 (2017 (restated) – loss after tax of £1,153,000) and a weighted average number of shares of 758,565,854 (2017 – 588,908,520). The weighted average number of shares has been reduced by the weighted average number of shares held by the Employee Benefit Trust.

The issue of additional shares on exercise of employee share options would decrease the basic profit per share and there is therefore no dilutive effect of employee share options.

9 Goodwill

	Total £'000
Cost and net book value	
At 1 January 2017	3,918
Acquired through business combination	468
At 31 December 2017	4,386
Acquired through business combination	903
At 31 December 2018	5,289

Goodwill arose on the acquisition of TPG Maritime Limited and TPG Engineering Limited on 5 April 2012 and on the acquisition of Polaris Consulting (Holdings) Limited on 12 December 2017. Goodwill arising in current year on the acquisition of Westek Technology Limited on 2 November 2018.

In accordance with the requirements of IAS 36, Impairment of Assets, goodwill is allocated to the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill as analysed in the table below:

	Total £'000
TPG Maritime Limited	3,316
TPG Engineering Limited	602
Polaris Consulting (Holdings) Limited	468
Westek Technology Limited	903
	5,289

Notes to the Financial Statements (continued)

9 Goodwill *(continued)*

The goodwill balance has been tested for annual impairment on the following basis:

- The carrying values have been assessed by reference to value in use.
- Cash flows based on forecast information for the next financial year, which have been approved by the board.
- The key assumptions on which the impairment tests are based on are a pre-tax discount rate of 11.5% (2017: 11.5%), a return to profitability of TPG Engineering Limited in 2019 and a long-term growth rate of 1.5% (2017: 2%) on forecast cash flows.
- The 2018 pre-tax discount rate has been verified by independent advisors.
- No impairment was identified as a result of the value in use exercise performed. The board has identified a reduction of adjusted operating profit by 10%, in the cash flows, as a reasonably possible change. This change would result in a goodwill impairment charge of £0.1m in TPG Engineering Limited.

10 Other intangible assets

	Technical know how £'000	Customer relationships £'000	Trade name £'000	Computer software £'000	Total £'000
Cost					
At 1 January 2017	12,239	324	171	214	12,948
Additions	-	-	-	47	47
Acquired through business combination	-	4,261	-	-	4,261
At 31 December 2017	12,239	4,585	171	261	17,256
Additions	-	-	-	80	80
Acquired through business combination	731	1,426	239	-	2,396
At 31 December 2018	**12,970**	**6,011**	**410**	**341**	**19,732**
Accumulated amortisation and impairment					
At 1 January 2017	3,904	104	128	37	4,173
Charge for year	883	194	11	44	1,132
Impairment	192	-	-	-	192
At 31 December 2017	4,979	298	139	81	5,497
Charge for year	810	472	15	138	1,435
At 31 December 2018	**5,789**	**770**	**154**	**219**	**6,932**
Net book value					
At 31 December 2017	7,260	4,287	32	180	11,759
At 31 December 2018	**7,181**	**5,241**	**256**	**122**	**12,800**

Intangible assets brought-forward as at 1 January 2017 arose on the acquisition of TPG Maritime Limited and TPG Engineering Limited on 5 April 2012 and are amortised on a straight-line basis over their useful life of fifteen years.

Notes to the Financial Statements (continued)

10 Other intangible assets *(continued)*

Intangible asset additions in the year ended 31 December 2017 comprise the acquisition of ALS Technologies Limited (now TPG Services Limited) and Flexible Solutions Software Limited on 6 February 2017 and Polaris Consulting (Holdings) Limited on 12 December 2017. These assets are amortised on a straight-line basis over their useful life of between nine and ten years.

Intangible assets acquired in the current year are a result of the acquisition of Westek Technology Limited on 2 November 2018. Technical know-how, customer relationships and the trade name will be amortised on a straight-line basis over their useful life of ten years.

Computer software represents externally acquired computer software licences and associated installation costs. Externally acquired computer software are capitalised and amortised on a straight-line basis over their useful life of three years. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software.

Parent Company	Computer software £'000	Total £'000
Cost		
At 1 January 2017	214	214
Additions	47	47
At 31 December 2017	261	261
Additions	35	35
At 31 December 2018	**296**	**296**
Accumulated depreciation		
At 1 January 2017	37	37
Charge for year	44	44
At 31 December 2017	**81**	**81**
Charge for year	130	130
At 31 December 2018	**211**	**211**
Net book value		
At 1 January 2017	177	177
At 31 December 2017	**180**	**180**
At 31 December 2018	**85**	**85**

Notes to the Financial Statements (continued)

11 Property, plant and equipment

Group	Computer equipment £'000	Office furniture and fittings £'000	Plant and machinery and motor vehicles £'000	Total £'000
Cost				
At 1 January 2017	622	121	980	1,723
Additions	301	69	1,558	1,928
Acquired through business combinations	5	47	-	52
Transfers	1	(38)	37	-
Disposals	(456)	-	(138)	(594)
At 31 December 2017	473	199	2,437	3,109
Additions	219	82	564	865
Acquired through business combinations	-	16	43	59
Transfers	(11)	(5)	16	-
Transfer to right-of-use assets	-	-	(1,142)	(1,142)
Disposals	-	-	(237)	(237)
At 31 December 2018	**681**	**292**	**1,681**	**2,654**
Accumulated depreciation				
At 1 January 2017	536	63	457	1,056
Charge for year	61	11	145	217
Disposals	(456)	-	(135)	(591)
Impairments	7	7	287	301
Transfers	(2)	(1)	3	-
At 31 December 2017	146	80	757	983
Charge for year	132	55	130	317
Disposals	-	-	(28)	(28)
Impairments	-	-	-	-
Transfers	13	(25)	12	-
Transfer to right-of-use assets	-	-	(19)	(19)
At 31 December 2018	**291**	**110**	**852**	**1,253**
Net book value				
At 1 January 2017	86	58	523	667
At 31 December 2017	327	119	1,680	2,126
At 31 December 2018	**390**	**182**	**829**	**1,401**

Assets held under hire purchase or finance lease agreements have been transferred to right-of-use assets in note 12. Assets still in use with a net book value of zero are £1,133,000 (2017: £583,000).

Notes to the Financial Statements (continued)

11 Property, plant and equipment *(continued)*

Parent Company	Computer equipment £'000	Total £'000
Cost		
At 1 January 2017	25	25
Additions	35	35
At 31 December 2017	60	60
Additions	39	39
At 31 December 2018	**99**	**99**
Accumulated depreciation		
At 1 January 2017	12	12
Charge for year	15	15
At 31 December 2017	27	27
Charge for year	26	26
At 31 December 2018	**53**	**53**
Net book value		
At 1 January 2017	13	13
At 31 December 2017	33	33
At 31 December 2018	**46**	**46**

At 31 December 2018 there are no assets held under finance leases (2017: £nil).

Notes to the Financial Statements (continued)

12 Right-of-use assets

Group	Plant, machinery and motor vehicles £'000	Total £'000
Cost		
Recognised on adoption of IFRS 16 on 1 January 2018	4,506	4,506
Finance leases transferred from property plant and equipment	1,123	1,123
Additions	119	119
Acquired through business combinations	213	213
At 31 December 2018	**5,961**	**5,961**
Accumulated depreciation		
At 1 January 2018	-	-
Charge for year	538	538
At 31 December 2018	**538**	**538**
Net book value		
At 1 January 2018	5,629	5,629
At 31 December 2018	**5,423**	**5,423**

Right-of-use assets comprise property leases (IFRS 16 adjustment) and property, plant and equipment held across the Group.

Company	Plant and Machinery £'000	Total £'000
Cost		
At 1 January 2018 and 31 December 2018	130	130
Accumulated depreciation		
At 1 January 2018	-	-
Charge for year	36	36
At 31 December 2018	**36**	**36**
Net book value		
At 1 January 2018	130	130
At 31 December 2018	**94**	**94**

Right-of-use assets (IFRS 16 adjustment) comprise a property lease at Cody Technology Park, Farnborough for a period of three years.

Notes to the Financial Statements (continued)

13 Investments in Subsidiary Undertakings

The Parent Company's investments comprise interests in group undertakings, details of which are listed below. The companies are wholly owned and are incorporated in England and Wales.

Parent Company	2018 £'000	2017 £'000
Cost and net book value		
At 1 January	**15,435**	11,681
Investment during year:		
Investment in shares in group undertakings	**3,371**	4,494
Long term loan to subsidiary	**133**	315
Provision against long term inter-company loan	**(133)**	(1,055)
At 31 December	**18,806**	15,435

The total cost of investment in subsidiary undertakings can be analysed as:

	2018 £'000	2017 £'000
Investment in shares in group undertakings	**18,775**	15,404
Long term loan to subsidiary net of provision	**-**	-
Share options granted to subsidiary employees	**31**	31
	18,806	15,435

The increase in investments in shares in Group undertakings relates to the acquisitions of Westek Technology Limited please refer to note 26.

A long-term loan has been made to TPG Design & Technology Limited ("TPGD&T"). The loan is interest free and has no fixed date for repayment. The Company holds a receivable balance with TPG Engineering Limited which is non-interest bearing, and has no fixed date for repayment (note 18). Following a review of the future expected performance of TPG D&T and TPGE and timings thereof, the Parent Company has assessed that there is some risk in the full recoverability of the loan and receivable. As such, an impairment review was undertaken and an increase in the provision of £133,000 against the loan to TPG D&T and an increase in provision of £4,743,000 against the receivable to TPGE was deemed to be required in the current year. The board has identified a reduction of adjusted operating profit by 10%, in the cash flows, as a reasonably possible change. This change would result in a further impairment charge of £0.8m to the intercompany receivable owed by TPG Engineering Limited.

The key assumptions on which the impairment tests are based are a pre-tax discount rate of 11.5% (2017: 11.5%) and a long-term growth rate of 1.5% (2017: 2%) on forecast cash flows.

The remaining carrying value of the assets is based on the value in use.

Notes to the Financial Statements (continued)

13 Investments in Subsidiary Undertakings *(continued)*

Name of undertaking	Description of shares held	Proportion of nominal value of shares held by the Parent Company	Principal activity
TPG Maritime Limited	£1.00 ordinary shares	100%	1
TPG Design & Technology Limited	£1.00 ordinary shares	100%	2
TPG Engineering Limited	£1.00 ordinary shares	100%	3
TPG Services Limited (previously ALS Technologies Limited)	£0.01 ordinary shares	100%	4
Polaris Consulting (Holdings) Limited	£1.00 ordinary shares	100%	4
Polaris Consulting Limited	£1.00 ordinary shares	100%	4
Westek Holdings Limited	£1.00 ordinary shares	100%	5
TPG USA Inc	$0.001 ordinary shares	100%	6
Hunt Thermal Technologies Limited	£1.00 ordinary shares	100%	Dormant
Atmosphere Control International Limited	£1.00 ordinary shares	100%	Dormant
Wellman Defence Limited	£1.00 ordinary shares	100%	Dormant

The registered office for all subsidiary undertakings incorporated in the United Kingdom is A2/1064 Cody Technology Park, Farnborough, Hampshire, GU14 0LX.

1. Provision of air purification equipment for submarines including oxygen/hydrogen generation and purification, air handling and distribution systems.
2. Innovation and development of turbomachinery systems.
3. Design and manufacture of heat exchangers and other critical equipment used in large scale industrial processes.
4. The provision of services including technical project management, systems engineering, design, software development and assurance.
5. The provision of rugged, high performance computer servers and ancillary equipment for the defence and commercial sectors.
6. A holding company to support any activity that arises in the United States of America. The Company is incorporated in the United States of America.

Notes to the Financial Statements (continued)

14 Amount owed by Employee Benefit Trust

Parent Company	2018 £'000	2017 £'000
Amounts owed by EBT	**600**	600
Less: impairment	**(505)**	(504)
	95	96

The loan to the Employee Benefit Trust is interest free and unsecured. Details of the Employee Benefit Trust are provided in note 27. The loan is repayable under the following circumstances:

i) From receipt of consideration from the sale of shares in the Parent Company purchased with the loan; and

ii) Following any lapses in options granted by the Employee Benefit Trust over shares in the Parent Company, the Parent Company can force the sale of shares to repay the loan.

The loan is not expected to be fully repaid within the next 12 months.

Under the terms of the loan facility, should the Employee Benefit Trust be unable to repay the loan following disposal of all its assets then the loan shall be considered waived.

The impairment against the loan is a result of movements in the number and open market value of the shares in the Parent Company held by the Employee Benefit Trust, which could affect its ability to fund future loan repayments.

15 Inventories

	Group	
	2018 £'000	2017 Restated £'000
Raw materials	**628**	162
Work in progress	**2,099**	6,380
	2,727	6,542

The cost of inventories recognised as an expense during the year in respect of continuing operations was £12,544,000. The cost of inventories recognised at the reporting date is not materially different to the replacement cost. There has been no write-down of inventory to net realisable value.

Notes to the Financial Statements (continued)

16 Long term contracts

The carrying amounts presented in the Consolidated Statement of Financial Position for long term contracts relate to the following categories of assets and liabilities:

Group	2018 £'000	2017 Restated[1] £'000
Contracts in progress at the reporting date:		
Work in progress included in inventories	**1,871**	6,312
Amounts due from contract customers included in trade and other receivables (note 18)	**5,596**	4,084
Amounts due to contract customers included in trade and other payables (note 21)	**(4,837)**	(10,669)
	2,630	(273)
Contract costs incurred plus recognised profits less recognised losses to date	**49,591**	43,005
Less progress billings	**(46,961)**	(43,278)
	2,630	(273)

[1] The Group has applied IFRS 15 at 1 January 2018 and has restated 2017 as disclosed in note 2.1

17 Financial assets and liabilities

The carrying amounts presented in the consolidated and Parent Company Statement of Financial Position relate to the following categories of assets and liabilities:

	Group		Parent Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Financial assets				
Amounts owed by EBT (note 14)	**-**	-	**95**	96
Trade and other receivables (note 18)	**8,817**	10,827	**4,677**	2,985
Cash at bank and in hand (note 19)	**22,413**	21,931	**10,505**	17,617
	31,230	32,758	**15,277**	20,698
Financial liabilities				
Trade payables and other payables (note 21)	**5,883**	4,313	**5,271**	4,160
Obligations under hire purchase contracts	**5,937**	958	**96**	-
	11,820	5,271	**5,367**	4,160

See note 2.12 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes. A description of the Group's risk management and objectives for financial instruments is given in note 2.12.

Notes to the Financial Statements (continued)

18 Trade and other receivables

	Group		Parent Company	
	2018 £'000	2017 Restated £'000	2018 £'000	2017 Restated £'000
Financial assets:				
Trade receivables	**3,221**	6,743	**-**	84
Amounts owed by subsidiary undertakings	**-**	-	**4,200**	2,901
Amounts due from construction contract customers (see note 16)	**5,596**	4,084	**-**	-
	8,817	10,827	**4,200**	2,985
Non-financial assets:				
Prepayments and other debtors	**1,074**	1,314	**623**	145
	9,891	12,141	**4,823**	3,130

The carrying value of trade and other receivables is considered a reasonable approximation of fair value due to their short-term nature. Impairment against intercompany receivable is discussed n note 13.

During 2018, the Group has recognised an impairment loss against trade receivables of £30,000 (2017:- £89,000). The average age of receivables is 31 days (2017:- 31 days). The ageing of past due but not impaired receivables is:

	Group		Parent Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
0-30 days	**846**	387	-	-
31-60 days	**279**	223	-	-
61-90 days	**69**	184	-	-
>90 days	**181**	24	-	-
	1,375	818	-	-

In 2018 a rent deposit of £67,000 (2017: £67,000) due after more than one year is included within prepayments and other debtors.

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. Credit terms are negotiated as part of each individual contract. No interest is charged on the receivables from the date of the invoice. The Group does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Notes to the Financial Statements (continued)

19 Cash and bank balances

The funds were placed on floating interest rate deposit as follows:

	Group		Parent Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Cash and bank balances	**22,413**	21,931	**10,505**	17,617

	Group		Parent Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Cash and cash equivalents	**22,873**[1]	22,462[1]	**10,505**	17,617

[1] Restricted cash of £460,000 (2017 – £531,000) is included in Prepayments and Other Debtors

20 Borrowings

The book value and fair value of loans and borrowings are as follows:

	Group			
	Book value 2018 £'000	Fair value 2018 £'000	Book value 2017 £'000	Fair value 2017 £'000
Secured				
Other loans[1] (note 21)	-	-	66	66
Finance lease liabilities[2] (note 22)	5,937	5,937	958	958
	5,937	5,937	1,024	1,024
Current	739	739	237	237
Non-current	5,198	5,198	787	787
Total loans and borrowings	5,937	5,937	1,024	1,024

[1] Fixed interest rate loan at 8.3% over a 48-month term from 11th October 2016. The loans were acquired on the purchase of Polaris Consulting (Holdings) Limited and settled in January 2018.
[2] The borrowings are fixed with repayment periods from 5 to 25 years and include the adoption of IFRS 16 which has increased borrowings by £5.0m at 31 December 2018.

Notes to the Financial Statements (continued)

21 Trade and other payables

	Group		Parent Company	
	2018	2017 Restated	2018	2017
	£'000	£'000	£'000	£'000
Financial liabilities:				
Amounts falling due within one year				
Other borrowings	**-**	26	**-**	-
Trade payables	**5,883**	4,247	**450**	195
Amounts owed to subsidiary undertakings	**-**	-	**4,821**	3,965
Amounts falling due after one year				
Other borrowings	**-**	40	**-**	-
	5,883	4,313	**5,271**	4,160
Non-financial liabilities:				
Accrued expenses	**2,121**	1,569	**522**	183
Amounts due to construction contract customers (see note 16)	**4,837**	10,669	**-**	-
Contingent consideration (see note 26)	**1,453**	1,639	**1,453**	1,423
Corporation tax	**-**	156	**-**	-
Other taxes and social security	**1,157**	764	**1,066**	67
	15,451	19,110	**8,312**	5,833

The carrying values of trade and other payables are considered to be a reasonable estimate of their fair values.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days (2017: 31 days). For most suppliers no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Notes to the Financial Statements (continued)

22 Obligations under finance leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts to acquire plant and machinery. As a result of the adoption of IFRS 16 all property leases are now reported as lease obligation on the Statement of Financial Position. Future minimum lease payments for both plant and machinery and property are as follows:

	Group	
	2018 £'000	**2017 £'000**
Future minimum payments due:		
Not later than one year	**959**	243
After one year but not more than five years	**3,150**	883
After five years	**3,013**	-
Less finance charges allocated to future periods	**(1,185)**	(168)
Present value of minimum lease payments	**5,937**	**958**
The present value of minimum lease payments is analysed as follows:		
Not later than one year	**739**	211
After one year but not more than five years	**2,585**	747
After five years	**2,613**	-
	5,937	958

The average lease term is 5 years. For the year ended 31 December 2018, the average effective borrowing rate was 4.26% (2017: 5.73%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets as disclosed in note 11.

23 Deferred taxation

	Group	
	2018 £'000	**2017 £'000**
At 1 January	**1,425**	823
Arising on business combination	**407**	724
Accelerated capital allowances	**-**	8
Credit to comprehensive income	**(184)**	(130)
At 31 December	**1,648**	1,425

The deferred tax liability arose in respect of intangible assets acquired on the acquisition of TPG Maritime Limited and TPG Engineering Limited on 5 April 2012, ALS Technologies Limited and Flexible Solutions Software Limited on 6 February 2017 and Polaris Consulting (Holdings) Limited on 12 December 2017. Amounts arose in the current year in respect of intangible assets acquired on the acquisition of Westek Technology Limited. In the year to 31 December 2018, the credit to the Consolidated Statement of Comprehensive Income of £180,000 (2017: £130,000) comprises the release of deferred tax liability arising on the amortisation of acquired intangibles.

Notes to the Financial Statements (continued)

24 Provisions

	Warranty £'000	**Property £'000**	**Total £'000**
At 1 January 2018	451	110	561
Utilised	(62)	-	**(62)**
Released to income statement	-	-	**-**
Charged to income statement	-	-	**-**
At 31 December 2018	**389**	**110**	**499**

The warranty provision recognises future claims for rectification and repair to goods sold and remaining under a contractual warranty period, the majority of which are expected to be incurred in the next one to three years.

The property provision recognises future costs of building dilapidations arising under the terms of property leases expiring over the next 15 years.

25 Share capital

	Allotted, called up and fully paid			
	2018 Number	**2017 Number**	**2018 £'000**	**2017 £'000**
Ordinary shares of 1 pence each	**758,565,854**	758,565,854	**7,586**	7,586

In accordance with the Articles of Association for the Parent Company adopted on 19 May 2011, the share capital of the Parent Company at the start of the year consisted of an unlimited number of ordinary shares of nominal value 1 pence each.

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of TP Group plc. None of the Parent Company shares are held by any company in the Group. The Employee Benefit Trust holds shares in the Parent Company as set out in note 27.

In July 2017, the Group completed an exercise to raise funds through an issuance of ordinary shares. On 28 July, 336,101,128 shares were issued for trading on AIM at an issue price of 6.5 pence per share. This raised gross proceeds of £21.8 million pounds, realising £20.8 million net of fees and expenses, to be used primarily to help fund the Group's acquisition programme and other internal investments.

Following the fundraising, the Group now has 758,565,854 Ordinary Shares in issue admitted to trading on AIM.

Notes to the Financial Statements (continued)

25 Share capital *(continued)*

Options

The Group has two unapproved share option schemes and an Enterprise Management Incentive (EMI) scheme. Share options have been granted by both the Parent Company and the Corac Employee Benefit Trust (note 27) under the rules of these schemes. The share options granted by the Employee Benefit Trust have no dilutive effect on the Parent Company's share capital.

	Unapproved schemes		EMI scheme		Total		
Number of options	**Parent Company number**	**EBT number**	**Parent Company number**	**EBT number**	**Parent Company number**	**EBT number**	**Total number**
At 1 January 2018	35,191,862	-	16,128,138	26,666	51,320,000	26,666	51,346,666
Granted during the year	2,750,000	-	-	-	2,750,000	-	2,750,000
Lapsed during the year	-	-	-	(26,666)	-	(26,666)	(26,666)
Cancelled during the year	(5,480,729)	-	(5,295,810)	-	(10,776,539)	-	(10,776,539)
At 31 December 2018	**32,461,133**	**-**	**10,832,328**	**-**	**43,293,461**	**-**	**43,293,461**

The exercise of options granted prior to April 2010, those granted during 2014 and 2015 and those granted to the directors during 2017 are subject to the satisfaction of the applicable performance conditions. At 31 December 2018, performance conditions not satisfied relate to the market price of the ordinary shares of the Parent Company as quoted on AIM. Options vest over a three-year period and generally will lapse on cessation of employment or ten years from issue.

The movement on the Group's share option scheme is summarised in the table below:

	2018 Weighted average exercise price (pence)	2018 Number of options	2017 Weighted average exercise price (pence)	2017 Number of options
At 1 January 2018	**7.52**	**51,346,666**	**15.62**	**18,950,094**
Lapsed during the year	**14.90**	**(26,666)**	**28.42**	**(3,890,836)**
Cancelled during the year	**7.03**	**(10,776,539)**	**11.80**	**(11,130,448)**
Granted during the year	**6.44**	**2,750,000**	**7.00**	**47,417,856**
At 31 December 2018	**7.57**	**43,293,461**	**7.52**	**51,346,666**
Exercisable at 31 December 2018	**9.23**	**11,657,744**	**13.45**	**4,152,144**

No share options were exercised during the year (2017: none). The options outstanding at 31 December 2018 had exercise prices as shown in the following table and a weighted average remaining contractual life of 7.93 years.

Notes to the Financial Statements (continued)

25 Share capital *(continued)*

At 31 December 2018 options over ordinary 1p shares together with the fair value per option granted and the assumptions used in the calculation of fair value for awards made after 7 November 2002, are set out in the table below.

The closing market price of the Parent Company's shares at 31 December 2018 was 5.900p and the range during the year was between 5.250p and 7.750p.

Expected volatility is a measure of the amount by which a share price is expected to fluctuate during a period. For options issued after 2009, expected volatility was based on the volatility of the Parent Company's shares during the previous 12 months. For options issued in earlier periods, the volatility of the Parent Company's share price was calculated as the average of annualised standard deviations of daily continuously compounded returns on the Parent Company's stock, calculated over 1, 2 and 3 years back from the date of grant where possible.

The risk-free rate is the yield to maturity on the date of grant of a UK Gilt Strip, with term to maturity equal to the expected life of the option.

The Group recognised total expenses of £165,000 and £375,000 related to equity-settled share-based payment transactions in 2018 and 2017 respectively.

Date of Grant	Number	Option price per share pence	Closing share price at grant pence	Exercise price pence	Expected volatility %	Risk-free interest rate %	Fair value per share pence
2010	200,000	21.75	22.00	21.75	50.63	1.20	6.31
2010	1,950,000	15.00	14.80	15,00	37.43	0.80	3.04
2012	500,000	11.25	11.25	11.25	36.28	0.47	2.27
2012	166,667	10.00	9.50	10.00	36.28	0.51	1.73
2013	250,000	14.00	14.00	14.00	42.23	0.35	3.25
2014	789,667	10.00	9.75	10.00	19.57	0.53	0.99
2014	250,000	10.00	5.50	10.00	42.28	0.76	0.38
2017	18,377,216	7.00	7.25	7.00	56.89	0.66	3.12
2017	9,188,608	7.00	7.25	7.00	56.89	0.66	3.14
2017	4,594,303	7.00	7.25	7.00	56.89	0.66	3.26
2017	4,277,000	7.00	7.25	7.00	56.89	0.66	3.57
2018	750,000	6.50	6.50	6.50	56.89	0.66	3.57
2018	2,000,000	6.42	6.42	6.42	56.89	0.66	3.57
	43,293,461						

All options expire 10 years after the date of grant.

The dividend yield of 0% in all cases reflects the absence of dividends and of a clear dividend policy statement at the relevant dates of grant.

Notes to the Financial Statements (continued)

26 Business combinations

Polaris Consulting (Holdings) Limited

On 12 December 2017, the Group, through its Parent Company, acquired 100% of the issued share capital of Polaris Consulting (Holdings) Limited for an initial consideration of £1,499,000 and a maximum deferred contingent consideration of £2,000,000 based on the performance of the business. The initial consideration, paid in cash using the Group's existing cash resources, has been adjusted for net debt retained in the business.

During the financial year the Group finalised its accounting for the acquisition including agreeing the deferred consideration with the sellers of Polaris Consulting Holdings Ltd and identifying further pre-acquisition information which required a revision to the provisional accounting disclosed in the financial statements for the year ended 31 December 2017. The financial statements for this period have been therefore restated to reflect this as disclosed in note 2.1.

Westek Technology Limited

On 2 November 2018, the Group, through its Parent Company, acquired 100% of the issued share capital of Westek Technology Limited for an initial consideration of £3,000,000 and a maximum deferred consideration of £500,000 dependent on certain employment related transition activities. The deal has been concluded on a cash free, debt free, normalised net asset basis, resulting in a £155,000 adjustment to the initial consideration. Westek is a leading provider of rugged, high performance computer servers and ancillary equipment for military and industrial customers predominantly in the UK, Europe and the United States, many of whom are not currently supplied by TP Group. The business operates from a facility in Wiltshire.

The acquisition of Westek is a strategic addition of proven capability in the design and manufacture of advanced electronic systems, providing specialist high-performance products. This capability also offers vertical integration with the rugged control systems already delivered with TP Group's packaged equipment offerings.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value £'000	Adjustment £'000	Fair value £'000
Property, plant & equipment	59	-	59
Identifiable intangible assets	-	2,396	2,396
Inventories	987	(314)	673
Cash and bank balances	47	-	47
Trade and other receivables	507	-	507
Trade and other payables	(1,023)	-	(1,023)
Deferred taxation	-	(407)	(407)
Total net assets	577	1,675	2,252

Fair value of consideration	£'000
Cash	3,000
Completion adjustment	155
Total consideration	3,155
Goodwill	903

Notes to the Financial Statements (continued)

26 Business combinations (continued)

Goodwill of £903,000 is primarily applicable to the assembled workforce acquired as part of the transaction. Acquisition costs of £275,000 arose as a result of the transaction. These have been recognised as part of administrative expenses in the Consolidated Statement of Comprehensive Income.

Had the acquisition of Westek Technology Limited been effective from 1 January 2018, the revenue for the Group would have been approximately £42,310,000, and the operating profit for the year would have been approximately £554,000. The directors consider these values to represent an approximate measure of performance of the combined Group on an annualised basis and to provide a reference point for future periods.

27 Employee Benefit Trust

On 8 November 2002, the Parent Company established the Corac Employee Benefit Trust, an employee benefit trust, as an employees' share scheme for the benefit of and as an incentive for the employees of the Group. The Corac Employee Benefit Trust is managed by an independent trustee.

At 31 December 2018 the Parent Company had loaned £600,000 (2017: £600,000) to the Corac Employee Benefit Trust. With this loan the Trustee purchased shares in the Parent Company and, at 31 December 2018, the Corac Employee Benefit Trust held 1,606,769 (2017: 1,606,769) ordinary shares in TP Group plc with a book cost of £653,352 (2017: £653,352) which had a market value of £94,799 (2017: £96,406). As set out in note 2.15(iii), neither the purchase nor sale of shares in the Parent Company leads to a gain or loss being recognised in the Consolidated Statement of Comprehensive Income but instead these are shown as movements on consolidated equity.

Options have been granted over nil (2017: 26,666) shares to certain employees.

The Parent Company intends to fund any shortfall should the Employee Benefit Trust need to purchase more shares to fulfil its obligations to option holders.

Dividends on the shares owned by the Employee Benefit Trust, the purchase of which was funded by an interest free loan to the Employee Benefit Trust from the Parent Company, are waived on the condition that the Trustee shall not be liable for any losses to the Employee Benefit Trust as a result of the waiver.

28 Risk management objectives and policies

Liquidity risk

The Group holds investments in bank deposits as a liquid resource to fund its operations. The Group's strategy for managing cash is to maximise interest income whilst ensuring availability to match the profile of the Group's expenditure. Liquidity is further managed by tight controls over expenditure.

Credit risk

The Group's exposure to credit risk arises from holding cash and cash equivalents. The Group places funds on deposit directly with banks. Group credit policy limits deposits to an approved list of specific banks, which is compiled taking into account various factors including credit ratings.

The Group's exposure to credit risk is also attributable to its trade receivables, which, as set out in note 18, at 31 December 2018 were £3,221,000 (2017: £6,743,000). The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management in line with principles set out in IFRS 9. Impairment loss recognised against trade receivables for the financial period was £87,000 (2017 restated: nil).

Notes to the Financial Statements (continued)

28 Risk management objectives and policies *(continued)*

Interest rate risk

The directors consider the principal element of risk directly arising from changes in interest rates relates to the level of interest income earned on bank deposits. Funds are invested to maintain a balance between accessibility of funds and competitive rates of return whilst investing funds safely.
It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Foreign currency risk

The Group undertakes contracts denominated in foreign currencies (principally Euro and US dollar) leading to an exposure in exchange rate movements for both sales and purchase transactions. Where they cannot be offset, forward exchange contracts are utilised to minimise the risk.

29 Contingent liabilities

As part of the Group's long-term contract trading activities, £1,331,000 of performance and warranty bonds (2017: £531,000) have been issued to customers. Of this amount £460,000 has been cash backed (2017: £531,000) by the Group's cash resources and this balance sits within prepayments and other debtors. The balance is supported by a bonding facility provided by Barclays Bank plc guaranteed by the UK Export Fund. No liability is expected to arise and no provision is made in the accounts.

30 Related party transactions

There were no related party transactions during the reporting period.

31 Subsequent events

There are no subsequent events to note since the reporting date and the signing of these financial statements.

Company Information

Company Number
3152034

Directors

P Cartmell - Chief Executive Officer
A McCree - Non-executive Chairman
S Kings – Executive Director (resigned 9 February 2018)
D Stroud – Chief Financial Officer
P Holland – Non-executive Director
J Warner-Allen – Non-executive Director

Secretary
C MacPherson

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