2017 Final Results, 8 March 2018

TT Electronics plc

Results for the year ended 31 December 2017

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An analyst presentation will be held today at 9.00am at Numis, 10 Paternoster Square, London EC4M 7LT. A replay of the webcast will be available on the investor relations section of our website later today at www.ttelectronics.com.

Results for the year ended 31 December 2017

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

1. Excluding the effect of restructuring costs and acquisition related costs
2. Rolling 12 month underlying operating profit return on average invested capital
3. Underlying operating cash flow (underlying EBITDA less net capital expenditure excluding property disposals, capitalised development expenditure, working capital and non-cash movements) divided by underlying operating profit
4. Net cash flow from operating activities less net cash flow from investing activities less interest paid

Strategic progress

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

Financial headlines

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

Richard Tyson, Chief Executive Officer, said:

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

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

2017 OVERVIEW

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

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

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

STRATEGIC PROGRESS

We made significant strategic progress in 2017:

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

Portfolio transformation

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

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

- broadened its customer base.

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

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

Strong organic profitable growth

We delivered strong revenue and profit growth, with all three businesses delivering organic growth. During the year we realised benefits from management actions started in 2015 to improve our customer focus, increase our R&D activities and enhance our operational efficiency.

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

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

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

Capital deployment

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

In February 2018, we announced the recommended cash offer for Stadium Group plc (Stadium) for a total consideration of £45.8 million plus net debt to be acquired of £11.8 million[†]. Stadium is a leading supplier for design led technologies for the industrial, aerospace and defence, medical and transportation sectors. The acquisition will give TT a greater presence in attractive sectors; enhanced product capabilities in power electronics and connectivity; extending R&D capabilities; and a complementary customer base providing cross selling opportunities. We continue to review value creating acquisition opportunities where we can deploy capital to add complementary capabilities, customers and scope to TT.

*As at 31 December 2017 as announced by Stadium Group plc as part of its trading update on 18 January 2018

DIVISIONAL REVIEWS

SENSORS AND SPECIALIST COMPONENTS

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

	2017	2016	Change	Change constant fx
Revenue	**£142.3m**	£129.5m	10%	6%
Underlying operating profit[11]	**£18.8m**	£15.6m	21%	15%
Operating profit margin[1]	**13.2%**	12.0%	120bps	110bps

1. Excluding restructuring costs, asset impairments and acquisition related costs.

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

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

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

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

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

During the year, we increased our cash spend on R&D in the Sensors and Specialist Components division by 7 per cent, and launched 10 new products. This includes four new products launched in the current sensing, circuit protection and signal conditioning business, responding to customer demand for smaller and lighter components, and extended capabilities to protect circuits from greater power surges.

POWER ELECTRONICS

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

	2017	2016	Change	Change constant fx
Revenue	**£64.2m**	£56.2m	14%	14%
Underlying operating profit[1]	**£6.2m**	£5.0m	24%	24%
Operating profit margin[1]	**9.7%**	8.9%	80bps	80bps

1. Excluding restructuring costs, asset impairments and acquisition related costs.

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

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

In the first half, we acquired Cletronics, a small US based manufacturer of electromagnetic components for the aerospace industry, for £1.2 million. The acquisition is helping to accelerate the strategy for our power electronics capabilities in North America and adds product and technical breadth to the capabilities acquired with Aero Stanrew in 2015. Cletronics contributed £1.4 million of revenue and £0.2 million of underlying operating profit in just over 9 months of ownership.

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

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

During the year, we launched six new products in partnership with our customers, underpinning our future growth. New products launched include a magnetic component for an Electronic Load Management System (ELMS) for aerospace and defence applications and power and control microcircuits including for our Application-Specific Integrated Circuit (ASIC) product ranges.

GLOBAL MANUFACTURING SOLUTIONS

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

	2017	2016	Change	Change constant fx
Revenue	**£153.5m**	£147.0m	4%	2%
Underlying operating profit[1]	**£6.5m**	£6.3m	3%	(3)%
Operating profit margin[1]	**4.2%**	4.3%	(10)bps	(20)bps

1. Excluding restructuring costs, asset impairments and acquisition related costs.

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

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

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

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

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

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

OTHER FINANCIAL INFORMATION

Corporate costs were £7.2 million (2016: £6.3 million) with the increase linked to the growth of the business.

Net interest expense reduced by £2.2 million to £2.3 million (2016: £4.5 million) due to improved margins on the new bank facility, reduced amortisation of bank fees and lower pensions interest together with the benefit of lower average net debt as a result of the disposal of the Transportation division at the start of the fourth quarter.

The underlying effective tax rate for the continuing group was 20.0 per cent (2016: 21.1 per cent). The enactment of the Tax Cuts and Jobs Act in the United States on 22 December 2017 has resulted in a one-off non-cash revaluation of the group’s deferred tax liabilities. The resultant tax credit of £1.8 million has been recognised outside of the underlying tax charge. Going forward, it is expected that the impact of US tax reform will be beneficial, keeping the Group in the near term at the lower end of the 20-22 per cent tax rate guidance range previously given. Basic underlying earnings per share from continuing operations increased by 40 per cent to 10.9 pence (2016: 7.8 pence), and by 30 per cent at constant currency.

Profit from continuing operations in the year improved to £15.7 million (2016: £11.9 million) after a charge for items excluded from underlying profit of £4.3 million (2016: £1.8 million). Restructuring and other costs totalling £1.6 million related to footprint change projects which were partially offset by gains related to a pensions increase exchange (“PIE”) exercise. Acquisition and disposal costs of £2.7 million (2016: £3.8 million) related mainly to the non-cash amortisation of acquisition intangibles.

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

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

Net funds at the end of the year were £47.0 million (2016: net debt £55.4 million) with the change to a net cash position largely as a result of the disposal of the Transportation division. As a result, net debt to underlying EBITDA at the end of the year was nil (2016: 1.0 times).

The Group's defined benefit pension schemes moved into a net accounting surplus of £11.9 million (2016: deficit £5.7 million). The improvement in the position of the schemes was due to deficit contributions of £4.7 million made to the UK scheme, together with favourable asset returns, and a reduction in liabilities arising from a pensions increase exchange exercise partly offset by the impact of a reduction in gilt yields and inflation assumptions. The Group continues to make good progress towards its strategic goal of achieving self-sufficiency, and further steps were taken during the year to de-risk the UK scheme's investment strategy. Deficit contributions of £4.9 million will be paid during 2018.

DIVIDEND

Given TT's strong performance, the Board's confidence in the future prospects for the business, and reflecting the financial impact on the Group of the disposal of the Transportation division, the Board is proposing a final dividend 4.05 pence per share. This will take the full year dividend to 5.8 pence per share (2016: 5.6 pence per share), an increase of 4 per cent. Payment of the dividend will be made on 18 May 2018 to shareholders on the register on 27 April 2018.

OUTLOOK

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

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

GOING CONCERN

The Directors have reviewed the budgets for 2018 and the projections for 2019 developed during the 2017 annual strategic planning cycle. The Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities. Based on this, the Directors are satisfied that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

RESPONSIBILITY OF THE DIRECTORS

We confirm that to the best of our knowledge:

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

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

By order of the Board

Richard Tyson	**Mark Hoad**
Chief Executive Officer	Chief Financial Officer
7 March 2018	7 March 2018

Cautionary statement

This report contains forward-looking statements. These have been made by the Directors in good faith based on the information available to them up to the time of their approval of this report. The Directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The Directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Consolidated income statement

for the year ended 31 December 2017

£million (unless otherwise stated)	Note	2017	2016*
Revenue	3	**360.0**	332.7
Cost of sales		**(267.2)**	(248.8)
Gross profit		**92.8**	83.9
Distribution costs		**(22.7)**	(23.2)
Administrative expenses		**(50.8)**	(43.0)
Other operating income		**0.7**	1.1
Operating profit		**20.0**	18.8
Analysed as:			
Underlying operating profit	3	**24.3**	20.6
Restructuring and other	6	**(1.6)**	2.0
Acquisition and disposal related costs	6	**(2.7)**	(3.8)
Finance income	5	**0.1**	0.1
Finance costs	5	**(2.4)**	(4.6)
Profit before taxation		**17.7**	14.3
Taxation	7	**(2.0)**	(2.4)
Profit from continuing operations		**15.7**	11.9
Discontinued operations			
Profit from discontinued operations	4	**32.0**	4.8
Profit for the period attributable to the owners of the Company		**47.7**	16.7
EPS attributable to owners of the Company (p)			
Basic			
Continuing operations	9	**9.7**	7.3
Discontinued operations	9	**19.8**	3.0
		29.5	10.3
Diluted			
From continuing operations	9	**9.5**	7.3
From discontinued operations	9	**19.3**	3.0
		28.8	10.3

[1] Re-presented for discontinued operations.

Consolidated statement of comprehensive income

for the year ended 31 December 2017

£million	2017	2016
Profit for the year	**47.7**	16.7
Other comprehensive income/(loss) for the year after tax		
Items that are or may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**(9.3)**	19.4
Gain on hedge of net investment in foreign operations	**1.5**	7.3
Gain/(loss) on cash flow hedges taken to equity less amounts taken to income statement	**2.1**	(0.5)
Foreign exchange gain on disposals taken to income statement	**(5.1)**	-
Items that will never be reclassified to the income statement:		
Remeasurement of defined benefit pension schemes	**10.3**	11.3
Remeasurement of other post-employment benefits	**0.1**	(0.2)
Tax on remeasurement of defined benefit pension schemes	**(2.2)**	(2.1)
Total comprehensive income for the year attributable to the owners of the Company	**45.1**	51.9

Consolidated balance sheet

at 31 December 2017

£million	Note	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment		**41.8**	92.2
Goodwill		**100.3**	106.5
Other intangible assets		**27.3**	36.7
Deferred tax assets		**5.6**	6.4
Pensions	11	**15.1**	-
Total non-current assets		**190.1**	241.8
Current assets			
Inventories		**59.1**	79.6
Trade and other receivables		**66.0**	96.8
Income taxes receivable		**1.3**	0.8
Derivative financial instruments		**1.6**	0.6
Cash and cash equivalents		**46.5**	49.8
Total current assets		**174.5**	227.6
Total assets		**364.6**	469.4
LIABILITIES			
Current liabilities			
Borrowings		**0.3**	1.6
Derivative financial instruments		**0.6**	2.4
Trade and other payables		**63.0**	94.8
Income taxes payable		**19.0**	9.7
Provisions		**7.3**	7.5
Total current liabilities		**90.2**	116.0
Non-current liabilities			
Borrowings		**0.3**	103.6
Deferred tax liability		**2.0**	6.1
Pensions	11	**3.2**	5.7
Other non-current liabilities		**0.1**	4.6
Total non-current liabilities		**5.6**	120.0
Total liabilities		**95.8**	236.0
Net assets		**268.8**	233.4
EQUITY			
Share capital		**40.7**	40.6
Share premium		**2.9**	2.1
Other reserves		**8.4**	9.6
Hedging and translation reserve		**33.5**	44.3
Retained earnings		**181.3**	134.8
Equity attributable to owners of the Company		**266.8**	231.4
Non-controlling interests		**2.0**	2.0
Total equity		**268.8**	233.4

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

Richard Tyson
Director

Mark Hoad
Director

Consolidated statement of changes in equity

for the year ended 31 December 2017

£million	Share capital	Share premium	Hedging and translation reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interest	Total
At 1 January 2016	40.5	1.8	18.1	7.0	118.0	185.4	2.0	187.4
Profit for the period	-	-	-	-	16.7	16.7	-	16.7
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	19.4	-	-	19.4	-	19.4
Gain on hedge of net investment in foreign operations	-	-	7.3	-	-	7.3	-	7.3
Loss on cash flow hedges taken to equity less amounts taken to income statement	-	-	(0.5)	-	-	(0.5)	-	(0.5)
Remeasurement of defined benefit pension schemes	-	-	-	-	11.3	11.3	-	11.3
Remeasurement of other post-employment benefits	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	(2.1)	(2.1)	-	(2.1)
Total other comprehensive income	-	-	26.2	-	9.0	35.2	-	35.2
Transactions with owners recorded directly in equity	-	-	-	-	-	-	-	-
Equity dividends paid by the Company	-	-	-	-	(8.9)	(8.9)	-	(8.9)
Share-based payments	-	-	-	2.4	-	2.4	-	2.4
Deferred tax on share-based payments	-	-	-	0.2	-	0.2	-	0.2
New shares issued	0.1	0.3	-	-	-	0.4	-	0.4
At 1 January 2017	**40.6**	**2.1**	**44.3**	**9.6**	**134.8**	**231.4**	**2.0**	**233.4**
Profit for the year	**-**	**-**	**-**	**-**	**47.7**	**47.7**	**-**	**47.7**
Other comprehensive income								
Exchange differences on translation of foreign operations	**-**	**-**	**(9.3)**	**-**	**-**	**(9.3)**	**-**	**(9.3)**
Gain on hedge of net investment in foreign operations	**-**	**-**	**1.5**	**-**	**-**	**1.5**	**-**	**1.5**
Gain on cash flow hedges taken to equity less amounts taken to income statement	**-**	**-**	**2.1**	**-**	**-**	**2.1**	**-**	**2.1**
Foreign exchange gain on disposals taken to income statement	**-**	**-**	**(5.1)**	**-**	**-**	**(5.1)**	**-**	**(5.1)**
Remeasurement of defined benefit pension schemes	**-**	**-**	**-**	**-**	**10.3**	**10.3**	**-**	**10.3**
Remeasurement of other post-employment benefits	**-**	**-**	**-**	**-**	**0.1**	**0.1**	**-**	**0.1**
Tax on remeasurement of defined benefit pension schemes	**-**	**-**	**-**	**-**	**(2.2)**	**(2.2)**	**-**	**(2.2)**
Total other comprehensive income	**-**	**-**	**(10.8)**	**-**	**8.2**	**(2.6)**	**-**	**(2.6)**
Transactions with owners recorded directly in equity								
Equity dividends paid by the Company	**-**	**-**	**-**	**-**	**(9.1)**	**(9.1)**	**-**	**(9.1)**
Share-based payments	**-**	**-**	**-**	**4.0**	**-**	**4.0**	**-**	**4.0**
Deferred tax on share-based payments	**-**	**-**	**-**	**1.0**	**-**	**1.0**	**-**	**1.0**
Current tax taken to equity	**-**	**-**	**-**	**-**	**(0.3)**	**(0.3)**	**-**	**(0.3)**
Purchase of own shares	**-**	**-**	**-**	**(6.2)**	**-**	**(6.2)**	**-**	**(6.2)**
New shares issued	**0.1**	**0.8**	**-**	**-**	**-**	**0.9**	**-**	**0.9**
At 31 December 2017	**40.7**	**2.9**	**33.5**	**8.4**	**181.3**	**266.8**	**2.0**	**268.8**

Consolidated cash flow statement

for the year ended 31 December 2017

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

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

1 General information

The information set out below, which does not constitute full financial statements, is extracted from the audited financial statements of the Group for the year ended 31 December 2017 which:

- was approved by the Directors on 7 March 2018;
- contained an unqualified audit report that did not contain statements under section 498(2) or (3) of the Companies Act 2006;
- will be available to the shareholders and the public in April 2018; and
- will be filed with the Registrar of Companies following the Annual General Meeting.

2 Basis of accounting

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

The financial statements have been prepared using consistent accounting policies.

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

In accordance with IFRS 5 Non-current assets held for sale and discontinued operations, comparative information for the year ended 31 December 2016 has been re-presented for businesses treated as discontinued. During the year ended 31 December 2017 the Transportation Sensing and Controls division has been re-presented as a discontinued operation (see note 4).

3 Segmental reporting

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

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

– Power Electronics – The Power Electronics division creates specialist, high performance, ultra-reliable, highly engineered electronic components and sub-assemblies for power management, signal conditioning and connectivity applications in harsh environments. It serves customers in the industrial, automotive and aerospace and defence markets and focuses on creating value by developing innovative electronic solutions to challenging problems for our customers' electronic systems; and

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

Corporate costs - in 2016 and prior years central corporate costs were allocated to each of the divisions on the basis of revenue to determine underlying operating profit. For 2017 reporting those costs of the head office which are not related to the operating activities of the trading units are no longer allocated to divisions. Resources and costs managed centrally but deployed in support of the operating units will continue to be allocated to the divisional segments based on a combination of revenue and operating profit. Corporate costs are separately disclosed, equivalent to the segment disclosure information, so that reporting is consistent with the format that is now used for review by the chief operating decision maker. This gives greater transparency of the underlying operating profits for each segment. As required by IFRS8, comparative amounts have been restated to reflect this change.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

The key performance measure of the operating segments is underlying operating profit. Refer to note 14 for a definition of underlying operating profit and other alternative performance measures.

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

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

3 Segmental reporting (continued)

a) Income statement information – continuing operations

£million	Sensors and Specialist Components	Power Electronics	Global Manufacturing Solutions	Total Operating Segments	Corporate	2017 Total
Sales to external customers	**142.3**	**64.2**	**153.5**	**360.0**	**-**	**360.0**
Underlying operating profit	**18.8**	**6.2**	**6.5**	**31.5**	**(7.2)**	**24.3**
Adjustments to underlying operating profit (note 6)						**(4.3)**
Operating profit						**20.0**
Net finance costs						**(2.3)**
Profit before taxation						**17.7**

£million	Sensors and Specialist Components	Power Electronics	Global Manufacturing Solutions	Total Operating Segments	Corporate	2016 (re-presented) Total
Sales to external customers	129.5	56.2	147.0	332.7	-	332.7
Underlying operating profit	15.6	5.0	6.3	26.9	(6.3)	20.6
Adjustments to underlying operating profit (note 6)						(1.8)
Operating profit						18.8
Net finance costs						(4.5)
Profit before taxation						14.3

There are no significant sales between segments.

b) Geographic information

Revenue by destination

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

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

4 Disposals

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

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

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

The profit on disposal of discontinued operations is analysed below:

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

4 Disposals (continued)

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

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

5 Finance costs and finance income

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

6 Alternative performance measures

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

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

The Directors consider there to be four main alternative performance measures: underlying operating profit, free cash flow, underlying EPS (see note 9) and underlying effective tax rate. Free cash flow includes cash flow from discontinued operations as this better reflects the overall funding position of the Group.

6 Alternative performance measures (continued)

Underlying operating profit

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

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

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

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

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

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

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

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

6 Alternative performance measures (continued)

Free cash flow

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

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

Underlying earnings per share

This is the profit for the year attributable to owners of the Company adjusted to exclude the items not included within underlying operating profit divided by the weighted average number of shares in issue during the year (see note 9).

Underlying effective tax rate

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

£million	2017	2016
Underlying profit	24.3	20.6
Net interest	(2.3)	(4.5)
Underlying profit before tax	22.0	16.1
Underlying tax	4.4	3.4
Underlying effective tax rate	20.0%	21.1%

7 Taxation

a) **Analysis** of the tax charge for the year

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

UK tax is calculated at 19.25% (2016: 20.0%) of taxable profits. Overseas tax is calculated at the tax rates prevailing in the relevant countries. The Group's effective tax rate for the year from continuing operations was 11.3% (the underlying tax rate was 20.0% (see note 7).

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

b) Reconciliation of the total tax charge for the year

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

7 Taxation (continued)

The enacted UK corporation tax rate applicable from 1 April 2015 is 20%, from 1 April 2017 is 19% and from 1 April 2020 is 17%.

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

8 Dividends

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

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

9 Earnings per share

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

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

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

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

9 Earnings per share (continued)

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

Underlying earnings per share:

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

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

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

10 Reconciliation of net cash flow to movement in net debt

£million	Net cash	Borrowings and finance leases	Unamortised loan arrangement fees	Net funds/(debt)
At 1 January 2016	40.3	(96.4)	-	(56.1)
Cash flow	5.5	-	-	5.5
Repayment of borrowings	-	113.7	-	113.7
Proceeds from borrowings	-	(114.6)	-	(114.6)
Finance lease payments	-	0.3	-	0.3
New finance leases	-	(1.1)	-	(1.1)
Amortisation of loan arrangement fees	-	(0.7)	-	(0.7)
Exchange differences	4.0	(6.4)	-	(2.4)
At 1 January 2017	49.8	(105.2)	-	(55.4)
Cash flow	(2.8)	-	-	(2.8)
Repayment of borrowings	-	119.1	-	119.1
Proceeds from borrowings	-	(13.9)	-	(13.9)
Finance lease payments	-	0.3	-	0.3
Amortisation of loan arrangement fees	-	(0.3)	-	(0.3)
Reclassification of loan arrangement fees	-	(1.1)	1.1	-
Exchange differences	(0.5)	0.5	-	-
At 31 December 2017	46.5	(0.6)	1.1	47.0

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

11 Retirement benefit schemes

Defined contribution schemes

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

Defined benefit schemes

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

The triennial valuation of the UK scheme as at April 2016 showed a deficit of £46.0 million against the Trustee's funding objective compared with £19.1 million at April 2013. The Company has agreed additional fixed contributions extending to 2020 with the UK Scheme, based on the actuarial deficit at April 2016. These planned contributions amount to £4.9 million, £5.1 million and £3.9 million to be paid over the next three years. In addition, the Company has set aside £2.6 million to be utilised

in agreement with the Trustee for reducing the long-term liabilities of the scheme. Both the UK and USA schemes are closed to new members and the UK scheme was closed to future accrual in 2010.

The amounts recognised in respect of the pension deficit in the Consolidated balance sheet are:

£million	2017	2016
Fair value of assets	559.8	546.2
Present value of defined benefit obligation	(547.9)	(551.9)
Net surplus / (liability) recognised in the Consolidated balance sheet	11.9	(5.7)
Represented by:		
UK	15.1	(2.2)
USA	(3.2)	(3.5)
	11.9	(5.7)

Amounts recognised in the consolidated income statement are:

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

12 Related party transactions

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

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

13 Principal risk and uncertainties

The Group continues to be exposed to a number of operational and financial risks and has an established, structured approach to identifying, assessing and managing those risks. These risks relate to the following areas: general economic downturn; contractual risks; research and development; people and capability; supplier resilience; IT systems and information, M&A and integration and legal and regulatory compliance.

14 Alternative performance measure definitions

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

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

The Group uses the following alternative performance measures:

Underlying operating profit

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

Free cash flow

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

Underlying earnings per share

Definition: Profit for the year attributable to the owners of the Company adjusted to exclude the items not included within underlying operating profit divided by the weighted average number of shares in issue during the period. We have chosen EPS as a KPI as it is a standard metric to determine corporate profitability for shareholders. In addition, it is a measure used as one of the performance conditions in the Group’s Long Term Incentive Plan.

Underlying effective tax rate

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