2019 Final Results, 4 March 2020

TT Electronics plc

Results for the year ended 31 December 2019

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

Continued growth and margin development

£ million unless otherwise stated	Underlying[1] 2019	2018*	Change	Change constant fx	Statutory 2019	2018*
Continuing Operations						
Revenue	**478.2**	429.5	11%	9%	**478.2**	429.5
Operating profit	**40.0**	33.4	20%	17%	**18.8**	16.5
Operating profit margin (%)	**8.4%**	7.8%	60bps	60bps		
Profit before tax	**36.3**	31.5	15%	12%	**15.1**	14.6
Earnings per share (pence)	**18.7p**	16.2p	15%	13%	**8.5p**	8.0p
Return on invested capital[2]	**11.3%**	11.5%				
Cash conversion[3]	**98%**	88%				
Total Operations						
Earnings per share (pence)					**10.6p**	8.3p
Free cash flow[4]					**9.7**	8.5
Net debt					**(69.1)**	(41.7)
Net debt exc. IFRS 16					**(51.5)**	
Net debt to EBITDA[5]					**0.9x**	0.9x
Dividend per share (pence)					**7.0p**	6.5p

**FY 2018 not re-stated for IFRS 16 impacts*

Strategic highlights

- Strategy continues to drive growth, enhance margin and improve quality of business
- Aerospace, defence and medical revenues up 22% organically now 47% of Group revenues
- New customer wins with multi-year recurring revenues; improved order book visibility for the third year in succession
- New self-help programme launched to underpin further margin progression, improved efficiency and reduced carbon footprint;
- Successful capital deployment: core technology acquisitions with cross-selling success and continued R&D investment

Financial headlines

- 4% organic revenue growth; 9% growth at constant currency
- Underlying operating profit and PBT both materially increased; underlying EPS CAGR of 21% since 2015
- 8.4% underlying operating margin, +60 basis points
- ROIC of 11.3%; up 10 basis points to 11.6% before the impact of IFRS 16
- Strong cash conversion of 98% and ongoing investment for growth
- UK pension scheme triennial valuation completed - fully funded on an actuarial basis
- Full year dividend up 8% to 7.0p

Richard Tyson, Chief Executive Officer, said:

"Our performance in 2019 is the latest evidence of the significant business transformation we have achieved over the last five years. We have delivered a strong performance with another year of good revenue growth, double-digit profit improvement and further margin enhancement despite the macro challenges in some of our markets.

TT is continuing its path to a higher-quality, better-balanced business as a result of our investment in aerospace, defence and medical markets. Our power, sensing and connectivity solutions help to enable a more sustainable world. We have added to our technology and capabilities with the US acquisitions of Power Partners and the Covina power supply business.

We are well placed to make progress in 2020 and beyond. However, the duration and impact of the coronavirus remains uncertain, and based on the current situation we anticipate that it could impact underlying operating profit by up to £3 million in 2020. We are focused on making further strategic progress, and our new self-help programme underpins the journey to double-digit margins."

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

2. Rolling 12 month underlying operating profit return on average invested capital. Excluding IFRS16, ROIC is 11.6%, up 10 bps

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 and leases less interest paid. Please see note 7 for more information

5. Net debt at average exchange rates excluding leases previously recognised as operating leases divided by underlying operating profit excluding the impact of IFRS 16. including full-year pro-forma effect for acquisitions. Measure used for our banking covenants

2019: ANOTHER YEAR OF STRONG FINANCIAL PERFORMANCE

TT has again delivered a strong financial performance in 2019, with good revenue growth, profit improvement and margin enhancement as well as good cash conversion, despite more mixed market conditions. We are demonstrating that the transformation of the business to focus on markets with structural growth drivers has led to a higher-margin and better-balanced business capable of sustaining a strong financial performance.

Group revenue for 2019 was £478.2 million (2019: £429.5 million), up 4 per cent organically. Acquisitions contributed revenue of £25.8 million and there was a favourable £7.6 million foreign exchange impact. We saw good growth from our aerospace, defence and medical customers and revenues from these customers grew 22 per cent organically, now representing 47 per cent of our business. The Group's order book is strong, with an increased proportion of recurring revenues, and order visibility has improved for the third year in succession.

Underlying operating profit increased by 17 per cent at constant currency to £40.0 million (2018: £33.4 million). Acquisitions contributed £1.9 million. Statutory operating profit was £18.8 million (2018: £16.5 million), an increase of 14 per cent due to the improved trading performance, partially offset by increased restructuring costs. Statutory profit before tax was £15.1 million (2018: £14.6 million), up 3 per cent. The Group's profit improvement was driven by the Power and Connectivity and Global Manufacturing Solutions divisions which more than offset the impact of softer markets in the primarily industrial facing Sensors and Specialist Components division. Decisive cost action taken in the first half has helped to protect margins in this division. The synergy actions arising from the 2018 acquisition of Stadium have now been completed with further run rate benefits expected in 2020.

Underlying operating profit margin for the Group has improved by 60 basis points at constant currency to 8.4 per cent (2018: 7.8 per cent). Return on invested capital was 11.3 per cent, and 11.6 per cent before the impact of IFRS 16, an increase of 10 basis points on a like-for-like basis (2018: 11.5 per cent). We delivered another year of good cash conversion of 98 per cent (2018: 88 per cent) and free cash flow of £9.7 million (2018: £8.5 million).

SOLVING ELECTRONIC CHALLENGES FOR A SUSTAINABLE WORLD

OUR STRATEGY

We create sustainable value by:

- Positioning ourselves in structural growth markets
- Creating differentiated capabilities
- Working with our customers to solve their toughest electronic challenges

The trend for "electronics everywhere" represents a structural growth dynamic in our global markets. In industrial markets, automation and robotics have become commonplace; in medical markets, technology is taking medical surgery to a new level; in aerospace and defence, new aircraft platforms are launching with electronics at the heart of the drive for fuel efficiency; and in transportation, in the rail infrastructure market electronic solutions are being used to help improve efficiency and deliver preventative maintenance programmes. TT provides solutions to address our customers' challenges in all these markets. Our technology and products are used in a huge range of applications from smart infrastructure to medical scanners and the latest generation fighter jets.

Results of our strategy

Since 2015, the Group has undergone a significant transformation and is now a fundamentally different and improved business with a sustainable future. TT is continuing on the path to becoming a higher quality, better balanced Group with increasing exposure to the structural growth markets of aerospace, defence and medical.

- **Portfolio development** – moved from 25% aerospace, defence and medical in 2015 to 47% in 2019
- **M&A** – Disposal of the automotive focused transportation division. Six acquisitions since 2015 with aggregate consideration of £137 million. Further financial firepower remaining
- **Organic revenue growth** - moved from a 3% decline in 2015 to 4% growth in 2019
- **Margin enhancement** - almost doubled from 4.3% in 2015 to 8.4% in 2019
- **ROIC improvement** - moved from 9.0% in 2015 to 11.6%* in 2019
- **Employee engagement** - TT rated by employees as a 1 star great place to work†

** Before the impact of IFRS 16*
† Benchmarked by Best Companies Ltd

Our strategy is designed to grow TT and create value for our stakeholders including customers, employees, the communities in which we operate and shareholders. Fundamental to the success of our business is the engagement of our employees and we are committed to making TT a great place to work.

We have identified five strategic priorities to best focus the Group and enable us to fulfil our potential.

Business development

Our targeted business development activities identify customers with whom we can build strategic partnerships. We have identified key customer accounts where we have the greatest opportunity to expand our relationships, including introducing teams from other TT divisions. We have a sales council which helps ensure we go to market as 'One TT' and we have reorganised our marketing function to support this approach. We have also developed lead coaches across the Group to support members of our sales community and ensure we approach new sales opportunities in a way that maximises our chances of success. This has resulted in new customer wins, increased sales to existing customers and cross-selling successes.

Our success is reflected in the very strong growth we have delivered in our Global Manufacturing Solutions division, where we first developed this approach. Across the Group, our top three medical customers grew 18 per cent in the year and we won four new customers in our focus markets of aerospace, defence and medical. We successfully qualified a power supply from our newly acquired Power Partners business onto a medical product for one of our largest customers in Global Manufacturing Solutions, demonstrating early cross-selling success between these businesses. Aerospace and defence customer wins include a contract awarded by L3 Harris Technologies to support a substantial electronics manufacturing programme for a key military platform where we are preparing for contract volumes to ramp up through 2020 and 2021.

R&D and value-added product solutions

During the year, we increased our R&D spend to £13.5 million, up 6 per cent at constant currency. Investment is focused on three areas where we see the greatest opportunity for growth:

- Power solutions for aerospace and medical applications
- Connectivity for the industrial internet of things
- Specialist sensing capabilities

In June 2019 we launched a new prototype power convertor for aerospace applications at the Paris Airshow, demonstrating our product solution capabilities and the ability to move up the value chain. We have been balancing our near-term customer new product introduction priorities with engineering efforts that focus on longer term initiatives and during the year we secured funding to develop next generation power technology for the aerospace market. We are working alongside Innovate UK and a global engine manufacturer to help develop technology that can be used in more sustainable aircraft travel of the future, contributing to cleaner, quieter air travel.

Operational excellence

We strive to deliver operational excellence at each of our sites, wanting our customers to recognise TT for outstanding service. Following the successful transformation of some of our lowest performing sites in 2018, we continued to deploy our resources in sites where operational performance has been below TT benchmark levels, particularly in the UK. We see more opportunity to improve our operational performance and drive excellence through our cross divisional operations, supply chain and health and safety councils.

We have worked on optimising our cost base and our environmental impact, by reducing our footprint. In the year, we closed four sites, consolidating operations into our existing manufacturing footprint, so improving the efficiency of the Group.

We have initiated a new self-help programme to underpin the journey to double-digit margins, reducing the fixed cost base of the business, as well as improving the Group's environmental impact. The total cash cost of these projects is expected to be circa £14 million, comprising restructuring costs and capital expenditure, with full year run-rate benefits of £5-6 million in 2022.

We operate a zero-harm strategy and remain determined to continuously improve our safety performance. In 2019, we reduced the number of three-day lost time accidents from 17 to 4 following analysis of issues, shared experiences and a re-doubling of efforts. We have also increased our efforts around near miss reporting, preventative measures and behaviour-based safety training.

Value-enhancing acquisitions

We announced two acquisitions in the year, extending our power supply capabilities in the US across our core markets of aerospace, defence and medical. We acquired Power Partners, a small power supply provider in March 2019. The acquisition extends our technology roadmap for power products while improving our medical market access. We have already had a power supply designed by Power Partners approved for use with one of Global Manufacturing Solution's largest medical customers for use in pharmaceutical lab equipment.

In November 2019, we announced the acquisition of the aerospace and defence power supply business of Excelitas Technologies Corp based in Covina, California. The acquisition completed on 3 January 2020. The business expands our capabilities in power conversion while giving us enhanced access to the large and attractive US aerospace and defence market.

We are focused on opportunities that will extend our existing capabilities in our core markets of aerospace, defence and medical. We continue to develop our acquisition pipeline and review acquisition opportunities that will add complementary capabilities, customers and market access.

Building a sustainable business

TT engineers advanced electronics that benefit our planet and people for future generations. We do this by designing, manufacturing and working in a way that is cleaner, smarter and improves wellbeing. Our focus on engineering electronics that work reliably in challenging and performance critical environments helps our customers bring advances that benefit our planet and its people. We apply these principles to ourselves, in the way that we work and interact with our communities and through our innovative products and services for customers. The result is long-term sustainable value for our customers, our people and our local communities.

Our People, Social, Environment and Ethics Committee has an expanded remit, replacing our long-standing Corporate Social Responsibility Committee, which is chaired by the CEO and attended by a Non-executive director. The Committee drives TT's sustainability strategy in the best interests of our employee, community, customer and investor stakeholders.

We engineer and manufacture power, sensing and connectivity solutions to enable a more sustainable world and we are working towards sensible sustainability targets to incorporate into our key performance indicators to better measure our performance.

We are actively reviewing our operational footprint to improve the efficiency of the Group by optimising our cost base and our environmental impact. Our environmental strategy is focused around the areas we have assessed to have the greatest environmental impact, namely energy usage, waste management and water usage.

- **Energy usage:** Electricity is the largest component of our energy usage. Our target is to become carbon neutral on scope 1 and 2 emissions by 2035. As part of this, we are looking to switch our sites to green energy electricity tariffs, in geographies where they are available, as our energy contracts come up for renewal.
- **Waste management:** Our current waste management focus is around reducing our direct and indirect single plastic usage. During the year TT sites signed a "pledge on plastic" to reduce single use plastic. This pledge was endorsed by the Executive Management Board. We are looking at our waste to landfill and recycled waste and are targeting to reduce our waste to landfill and increase what we recycle.

- **Water usage:** We are conscious of the water we use during our production processes and are working to reduce this where possible. Examples include using wastewater generated by facilities for irrigation.

We are leading designers and manufacturers of products which help to minimise environmental impacts. Our power control solutions for aerospace and defence applications contribute to lighter and more environmentally friendly aircraft. As a result of the "Clean Sky" initiative, and the associated economic benefits from increased fuel efficiency, demand for our products has been increasing. We also produce power management devices for smart metering technology, which is driving a greater awareness of and subsequent reduction in energy usage in the business and home environments.

DIVISIONAL REVIEWS

POWER AND CONNECTIVITY

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

	2019	2018	Change	Change constant fx
Revenue	**£138.2m**	£115.5m	20%	18%
Underlying operating profit[1]	**£16.5m**	£11.2m	47%	45%
Operating profit margin[1]	**11.9%**	9.7%	220bps	210bps

1. Excluding the effect of restructuring and other non-recurring costs and acquisition related costs
Note: Prior period restated for the transfer of the Malaysian Magnetics business to the Power and Connectivity division.
In 2018 the Malaysian Magnetics business generated revenue of £17.5 million and underlying operating profit of £2.8 million.

The Power and Connectivity division performed strongly, with good growth and significant margin enhancement in the year. Revenues were up 2 per cent organically to £138.2 million (2018: £115.5 million). There was a £1.2 million favourable foreign exchange impact. The growth was driven by increased revenue from existing customers in aerospace, defence and medical. These markets now account for over 50 per cent of the division and grew 14 per cent organically. Acquisitions made a £19.5 million contribution to revenue.

Underlying operating profit was £16.5 million (2018: £11.2 million), up 45 per cent at constant currency. There was a £2.0 million profit contribution from acquisitions. Underlying operating profit margin improved to 11.9 per cent (2018: 9.7 per cent). The growth in underlying operating profit was driven by operational leverage from increased revenues and efficiency improvements, including the closure of three sites associated with the 2018 acquisitions of Stadium and Precision. Delivery of the synergy plan for the Stadium acquisition is now complete and combined with synergies from the acquisition of Precision delivered £2 million of cost savings in 2019.

The division continues to benefit from the structural growth drivers associated with the increasing electrification of aircraft and we won two new aerospace and defence customers in the period. Following a continued focus on key account management, we grew our revenues with three of our largest aerospace and defence customers by 36 per cent. We have targeted our R&D investment on the next generation of power solutions working across components, sub-assemblies and complete products. During the year we launched our first prototype power conversion unit at the Paris Airshow, following investment in 2018. We are actively working on several industry, government and customer funded projects focused on new technology for the next generation of more sustainable aircraft, developing electrical solutions that will contribute to cleaner, greener and quieter aircraft of the future alongside our key aerospace and defence customers.

We made progress with our connectivity offerings, including tracking devices for assets in the construction industry and medical wearable devices for use in European care homes. We also secured a cross-selling win with a Global Manufacturing Solutions customer for human machine interface solutions for a high-end, British automotive customer.

We have bolstered our power supply capabilities with two acquisitions. We acquired Power Partners in March 2019, a small US based power supply provider, which accelerates our technology roadmap for power products while improving our US medical market access. We are already pursuing revenue synergy opportunities with power solutions for existing TT customers. In November 2019, we announced the acquisition of the aerospace and defence power supply business of Excelitas Technologies Corp based in Covina, California. This acquisition completed on 3 January 2020 and expands our capabilities in power conversion, while giving us enhanced access to the large and attractive US aerospace and defence market.

At the start of the year we transferred our Malaysian Magnetics business from the Sensors and Specialist Components division to the Power and Connectivity division bringing together all our electromagnetics design and manufacturing capabilities in one division. This has enabled a joined-up approach for their routes to market and the optimisation of our manufacturing footprint strategy. This follows the accreditation of our Malaysian facility for aerospace and defence work, and the transfer of some of our product lines from our facility in North Devon, UK to Malaysia to create the capacity required for future growth.

GLOBAL MANUFACTURING SOLUTIONS

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

	2019	2018	Change	Change constant fx
Revenue	**£213.2m**	£181.8m	17%	16%
Underlying operating profit[1]	**£15.4m**	£11.3m	36%	34%
Operating profit margin[1]	**7.2%**	6.2%	100bps	90bps

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

Global Manufacturing Solutions delivered very strong revenue growth coupled with improved order visibility, reflecting the value our customers place on our manufacturing and engineering capabilities. Revenues were up by 12 per cent organically to £213.2 million (2018: £181.8million), driven by growth with customers in aerospace, defence and medical markets following our business development success in these markets over the last two years. There was a £2.2 million favourable foreign exchange impact. Acquisitions made a £6.3 million contribution to revenue in the division.

Underlying operating profit increased to £15.4 million from £11.3 million in 2018, up 34% at constant currency. There was a £0.1 million loss from acquisitions. Underlying operating profit primarily grew as a result of operational leverage on increased revenues and continued operational improvement, particularly in our UK operations. Underlying operating margins improved by 100 basis points to 7.2 per cent (2018: 6.2 per cent). The sustained step up in the margin of the division is a result of the transformation of the business from a manufacturing focus on printed circuit board assemblies to increasingly providing value-added services to our customers. We have invested in engineering teams to enable the manufacture of complex assemblies and to provide more sophisticated testing and engineering services, which account for 55% of revenues. By providing value-added services that benefit our customers, we are developing deeper and longer-term customer relationships and reducing churn in the revenue stream.

The strong growth is a result of investments made in strategic business development where we have been focused on targeting the right customers in the right markets. We have identified customers that have good structural growth drivers in their own markets and that value the complex engineering services we provide. During the year, we saw particularly strong growth from an aerospace and defence braking systems customer on a single aisle commercial aircraft, following our contract win in 2017.

Our top medical customers grew 18 per cent in the year and we won two new aerospace, defence and medical customers with multi-year, multi-million pound revenue streams. Customer wins include a contract awarded by L3 Harris Technologies to support a substantial electronics manufacturing programme for a key military platform, where we are preparing for the contract to ramp up in 2020 and 2021.

We have seen good cross-divisional collaboration, including with Power Partners, acquired this year. We have had a power supply designed by Power Partners approved by one of Global Manufacturing Solution's largest medical customers for use in pharmaceutical laboratory equipment. We see further opportunity from integrating products from our Power and Connectivity division, particularly in aerospace, defence and medical markets.

SENSORS AND SPECIALIST COMPONENTS

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

	2019	2018	Change	Change constant fx
Revenue	**£126.8m**	£132.2m	(4)%	(7)%
Underlying operating profit[1]	**£15.3m**	£18.5m	(17)%	(19)%
Operating profit margin[1]	**12.1%**	14.0%	(190)bps	(180)bps

1 Excluding the effect of restructuring and other non-recurring costs and acquisition related costs
Note: Prior period restated for the transfer of the Malaysian Magnetics business to the Power and Connectivity division.
In 2018 the Malaysian Magnetics business generated revenue of £17.5 million and underlying operating profit of £2.8 million.

During the year, the Sensors and Specialist Components division was impacted by softer market conditions and inventory de-stocking across its markets. Consequently, revenues were £126.8 million (2018: £132.2 million), down 7 per cent on an organic basis. There was also a favourable £4.2 million foreign exchange impact. This follows very strong mid-to-high single digit organic revenue growth in 2017 and in 2018.

Underlying operating profit was £15.3 million (2018: £18.5 million), down 19 per cent at constant currency. The underlying operating profit margin was 12.1 per cent (2018: 14.0 per cent). The reduction largely reflected the lower revenues and cost headwinds. We accelerated actions to improve the efficiency of our cost base including optimising our footprint and fixed labour costs. We have closed one facility and a further facility is in the process of being closed, with production being consolidated within the existing footprint. The total cash cost of this programme is expected to be circa £3.5 million. These actions realised circa £2 million of savings in the year. The underlying operating profit margin was 12.5 per cent in the second half, following the decisive cost action taken in the first half. We continue to review the range of self-help actions that are open to us in the business.

As a result of the weaker market conditions for sensing and power management devices we have taken the decision to put on hold the planned joint venture with Uniroyal. Uniroyal remain a key supply partner and we are focused on developing our existing relationship.

Although there has been short term market softening, the long term structural growth drivers for sensing and power management devices in applications such as robotic automation, energy, smart devices and infrastructure remain attractive. We have refocused our R&D investments around these core growth areas. De-stocking in the supply chain continues, and once completed we expect demand to return to more normal levels.

We have seen good growth in the period with a global industrial customer for our sensors which provide solutions for accurate information sensing for cash and card transactions. In the year we have won positions with new and existing customers, including a contract with a US defence prime to provide a custom sensor used in power management for a precision guidance mechanism. This arose from a cross-selling opportunity identified following the acquisition of Precision in 2018. New contracts were also won with aerospace and defence customers, primarily for avionic and engine controls on aircraft.

OTHER FINANCIAL INFORMATION

Corporate costs were £7.2 million (2018: £7.6 million).

The net interest expense of £3.7 million (2018: £1.9 million) increased by £1.8 million, in part reflecting higher average net debt associated with the acquisitions of Stadium and Precision and increased levels of working capital during the year as well as a £1.0 million increase due to the adoption of IFRS 16. Underlying profit before tax increased by 12% at constant currency to £36.3 million (2018: £31.5 million).

There was a tax charge in the period of £1.2 million (2018: £1.6 million) with an underlying tax charge of £5.8 million (2018: £5.3 million) and a credit on items excluded from underlying profit of £4.6 million. This resulted in an effective underlying tax rate of 16.0 per cent (2018: 16.8 per cent). Basic underlying earnings per share increased by 15 per cent to 18.7 pence (2018: 16.2 pence) and by 13 per cent at constant currency.

Profit from continuing operations in the year increased by 7 per cent to £13.9 million (2018: £13.0 million) after a charge for items excluded from underlying profit of £21.2 million (2018: £16.9 million). This comprised restructuring and other costs of £13.2 million (2018: £4.9 million) primarily related to headcount reduction and footprint rationalisation in the Sensors and Specialist Components division, as well as to support delivery of the Stadium synergy plan. There was also £1.0 million related to pension projects. In addition, acquisition and disposal costs were £8.0 million (2018: £12.0 million), including £3.1 million of cash costs related to the acquisitions made in the year, integration costs and costs associated with aborted M&A activities. Non-cash acquisition costs totalled £4.9 million, including £4.5 million of amortisation of acquired intangibles. Profit from discontinued operations was £3.4 million (2018: £0.4 million), primarily relating to the release of tax provisions due to the resolution of tax risks and expiry of warranties.

Full year cash conversion was 98% (2018: 88%). Within this, capital and development expenditure payments totalled £18.2 million (2018: £18.9 million), equivalent to 1.3 times (2018: 1.4 times) owned asset depreciation and amortisation. There was a working capital outflow of £3.1 million (2018: £2.1 million), with working capital levels adversely impacted by Brexit-related buffer inventory through the year, as well as additional inventory to support growth and contract wins. Net interest and taxation payments were £7.7 million (2018: £8.4 million).

The Group implemented IFRS 16, Leases with effect from 1 January 2019. On adoption of the new standard, the Group recognised £18.0 million of right-of-use assets and £21.3 million of lease liabilities. The impact on the income statement in the year has been to increase underlying operating profit by £0.8 million, with a broadly offsetting increase in the interest expense of £1.0 million. Prior year comparative information has not been restated.

Closing net debt at the year-end was £69.1 million (2018: £41.7 million), including £17.6 million of IFRS 16 lease liabilities. As a result, net debt to underlying EBITDA at 31 December 2019 on a bank covenant basis† was 0.9 times (2018: 0.9 times).

The net accounting surplus under the Group's defined benefit pension schemes was £16.6 million (2018: £16.5 million). Total deficit contribution payments made in the year were £8.6 million. The Stadium Group Retirement Benefits Plan (1974) pension scheme was merged into the TT Group scheme in March 2019, with the deficit contributions in the year including a payment of £3.4 million to align the schemes' funding levels.

The triennial valuation of the TT UK defined benefit scheme was completed during the year. As at April 2019, the scheme was fully funded (£0.3 million surplus) on an actuarial basis. This compares with a deficit of £46.0 million in April 2016. This significant improvement in the funding position has arisen from the combination of strong asset returns, planned deficit contributions and proactive liability management exercises such as the 2018 Pensions Increase Exchange. The Company has committed to continue its deficit contribution plan to target self-sufficiency and intends to undertake further de-risking in the future. Future planned contributions are £5.3 million, £5.5 million, £5.7 million and £4.4 million to be paid in 2020 to 2023 respectively.

† Bank covenant basis is pre-IFRS 16, proforma for acquisitions

DIVIDEND

The Board is proposing a final dividend of 4.9 pence per share. This, with the interim dividend of 2.1 pence per share, gives an increased dividend of 7.0 pence per share for the full year (2018: 6.5 pence per share), an increase of 8 per cent. Payment of the dividend will be made on 15 May 2020 to shareholders on the register on 24 April 2020.

UPDATE ON THE IMPACT OF COVID-19 (CORONAVIRUS)

TT operates two manufacturing facilities in China. One in Suzhou with circa 650 employees and one in Dongguan with circa 200 employees. In addition, we have two small support facilities in Shenzhen and Hong Kong. In 2019, these facilities accounted for 25 per cent of the Group's revenues.

Following the coronavirus outbreak around the turn of the year, our primary concern has been the well-being of our employees and managing their safe return to work following the lunar holiday. Both of our facilities closed for the lunar new year holiday as normal and were mostly closed for normal production until 10 February, as directed by the Chinese authorities. During this period, our global business continuity and crisis management plans operated very effectively, and we responded daily to local authority guidance.

Our Suzhou facility was given special permission to continue production throughout the extended lunar holiday to supply some critically needed medical diagnostic products for use in combating the virus. At this time, under strict government control, we operated at circa 20 per cent capacity instead of being shut completely. The Suzhou and Dongguan facilities re-opened on 10 February and have experienced a slower than normal capacity ramp-up but are now operating at circa 95 per cent capacity. We continue to prioritise actions and precautions to ensure the safety and well-being of our employees returning to work in the facilities.

We are carefully monitoring our supply chain of around 900 suppliers in China. At this time, to the best of our knowledge, 99 per cent of our suppliers have recommenced operations but with varying degrees of capacity.

The duration and impact of this issue on our business is uncertain, however based on slower than normal capacity ramp-up in both our own operations and the supply chain, lost or delayed sales and cost base inefficiencies we currently anticipate that it could impact underlying operating profit by up to £3 million. The possible impact of an extended supply chain disruption is uncertain. We currently expect the impact of these events to be restricted to 2020.

Our employees and local leadership have been exemplary during this difficult period. The outstanding efforts of our teams have enabled the business to continue to operate, deliver critical equipment and be returning to normality at the earliest possible time. Our thoughts remain with our employees and their families and those directly impacted by this situation.

OUTLOOK

Our performance in 2019 is the latest evidence of the significant business transformation we have achieved over the last five years. We have delivered a strong performance with another year of good revenue growth, double-digit profit improvement and further margin enhancement despite the macro challenges in some of our markets.

TT is continuing its path to a higher-quality better-balanced business as a result of our investment in aerospace, defence and medical markets. Our power, sensing and connectivity solutions help to enable a more sustainable world. We have added to our technology and capabilities with the US acquisitions of Power Partners and the Covina power supply business.

We are well placed to make progress in 2020 and beyond. However, the duration and impact of the coronavirus remains uncertain, and based on the current situation we anticipate that it could impact underlying operating profit by up to £3 million in 2020. We are focused on making further strategic progress, and our new self-help programme underpins the journey to double-digit margins.

GOING CONCERN

The Directors have reviewed the budgets for 2020 and the projections for 2021 developed during the 2019 annual strategic planning cycle. They have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities. They have also assessed the potential impact on the Group's trading arising from Brexit, which is not anticipated to be significant in the context of the Group's operations. Based on this, the Directors are satisfied that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. For this reason, they confirm that it is appropriate 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
Chief Executive Officer
3 March 2020

Mark Hoad
Chief Financial Officer
3 March 2020

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 2019

£million (unless otherwise stated)	Note	2019	2018
Revenue	3	478.2	429.5
Cost of sales		(361.4)	(318.8)
Gross profit		116.8	110.7
Distribution costs		(28.1)	(26.4)
Administrative expenses		(71.3)	(69.5)
Other operating income		1.4	1.7
Operating profit		18.8	16.5
Analysed as:			
Underlying operating profit	3	40.0	33.4
Restructuring and other	7	(13.2)	(4.9)
Acquisition related costs	7	(8.0)	(12.0)
Finance income	6	0.9	0.5
Finance costs	6	(4.6)	(2.4)
Profit before taxation		15.1	14.6
Taxation	8	(1.2)	(1.6)
Profit from continuing operations		13.9	13.0
Discontinued operations			
Profit from discontinued operations	5	3.4	0.4
Profit for the period attributable to the owners of the Company		17.3	13.4
EPS attributable to the owners of the Company (pence)			
Basic			
Continuing operations	10	8.5	8.0
Discontinued operations	10	2.1	0.3
		10.6	8.3
Diluted			
From continuing operations	10	8.4	7.8
From discontinued operations	10	2.0	0.3
		10.4	8.1

Consolidated statement of comprehensive income

for the year ended 31 December 2019

£million	2019	2018
Profit for the year	**17.3**	13.4
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	**(4.9)**	6.3
(Loss)/gain on hedge of net investment in foreign operations	**(2.0)**	1.7
Gain/(loss) on cash flow hedges taken to equity less amounts taken to income statement	**0.1**	(2.4)
Items that will never be reclassified to the income statement:		
Remeasurement of defined benefit pension schemes	**(9.1)**	9.5
Tax on remeasurement of defined benefit pension schemes	**1.7**	(1.6)
Total comprehensive income for the year attributable to the owners of the Company	**3.1**	26.9

Consolidated statement of financial position

at 31 December 2019

£million	Note	2019	2018
ASSETS			
Non-current assets			
Right-of-use assets		12.8	-
Property, plant and equipment		51.1	51.7
Goodwill		136.1	137.9
Other intangible assets		51.3	55.0
Deferred tax assets		7.5	6.1
Pensions	12	21.2	24.9
Total non-current assets		280.0	275.6
Current assets			
Inventories		102.8	96.4
Trade and other receivables		78.6	76.2
Income taxes receivable		4.3	1.6
Derivative financial instruments		0.9	0.4
Cash and cash equivalents		60.2	40.6
Total current assets		246.8	215.2
Total assets		526.8	490.8
LIABILITIES			
Current liabilities			
Lease liabilities		3.8	0.4
Derivative financial instruments		2.1	2.1
Trade and other payables		103.9	96.0
Income taxes payable		8.0	13.2
Provisions		5.2	4.4
Total current liabilities		123.0	116.1
Non-current liabilities			
Borrowings		111.7	81.7
Lease liabilities		13.8	0.2
Deferred tax liability		4.6	4.8
Pensions	12	4.6	8.4
Other non-current liabilities		0.2	0.1
Total non-current liabilities		134.9	95.2
Total liabilities		257.9	211.3
Net assets		268.9	279.5
EQUITY			
Share capital		41.0	40.8
Share premium		4.1	3.4
Other reserves		1.2	2.7
Hedging and translation reserve		32.3	39.1
Retained earnings		188.3	191.5
Equity attributable to owners of the Company		266.9	277.5
Non-controlling interests		2.0	2.0
Total equity		268.9	279.5

Approved by the Board of Directors on 3 March 2020 and signed on their behalf by:

Richard Tyson
Director

Mark Hoad
Director

Consolidated statement of changes in equity

for the year ended 31 December 2019

£million	Share capital	Share premium	Hedging and translation reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interest	Total
At 1 January 2018	40.7	2.9	33.5	8.4	180.0	265.5	2.0	267.5
Profit for the period	-	-	-	-	13.4	13.4	-	13.4
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	6.3	-	-	6.3	-	6.3
Gain on hedge of net investment in foreign operations	-	-	1.7	-	-	1.7	-	1.7
Loss on cash flow hedges taken to equity less amounts taken to income statement	-	-	(2.4)	-	-	(2.4)	-	(2.4)
Remeasurement of defined benefit pension schemes	-	-	-	-	9.5	9.5	-	9.5
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	(1.6)	(1.6)	-	(1.6)
Total other comprehensive income	-	-	5.6	-	7.9	13.5	-	13.5
Transactions with owners recorded directly in equity								
Equity dividends paid by the Company	-	-	-	-	(9.7)	(9.7)	-	(9.7)
Share-based payments	-	-	-	(3.8)	-	(3.8)	-	(3.8)
Deferred tax on share-based payments	-	-	-	(1.0)	-	(1.0)	-	(1.0)
Current tax taken to equity	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Purchase of own shares	-	-	-	(0.9)	-	(0.9)	-	(0.9)
New shares issued	0.1	0.5	-	-	-	0.6	-	0.6
At 31 December 2018	**40.8**	**3.4**	**39.1**	**2.7**	**191.5**	**277.5**	**2.0**	**279.5**
Impact of adoption of IFRS 16	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Adjusted balance at 1 January 2019	**40.8**	**3.4**	**39.1**	**2.7**	**189.2**	**275.2**	**2.0**	**277.2**
Profit for the year	-	-	-	-	17.3	17.3	-	17.3
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	(4.9)	-	-	(4.9)	-	(4.9)
Loss on hedge of net investment in foreign operations	-	-	(2.0)	-	-	(2.0)	-	(2.0)
Gain on cash flow hedges taken to equity less amounts taken to income statement	-	-	0.1	-	-	0.1	-	0.1
Remeasurement of defined benefit pension schemes	-	-	-	-	(9.1)	(9.1)	-	(9.1)
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	1.7	1.7	-	1.7
Total other comprehensive income	-	-	(6.8)	-	(7.4)	(14.2)	-	(14.2)
Transactions with owners recorded directly in equity								
Equity dividends paid by the Company	-	-	-	-	(10.9)	(10.9)	-	(10.9)
Share-based payments	-	-	-	0.2	-	0.2	-	0.2
Deferred tax on share-based payments	-	-	-	0.1	-	0.1	-	0.1
Current tax taken to equity	-	-	-	-	0.1	0.1	-	0.1
Purchase of own shares	-	-	-	(1.8)	-	(1.8)	-	(1.8)
New shares issued	0.2	0.7	-	-	-	0.9	-	0.9
At 31 December 2019	**41.0**	**4.1**	**32.3**	**1.2**	**188.3**	**266.9**	**2.0**	**268.9**

Consolidated cash flow statement

for the year ended 31 December 2019

£million	Note	2019	2018
Cash flows from operating activities			
Profit for the year		17.3	13.4
Taxation		1.2	1.6
Net finance costs		3.7	1.9
Restructuring and other		13.2	4.9
Acquisition related costs		8.0	12.0
Profit from discontinued operations		(3.4)	(0.4)
Underlying operating profit		40.0	33.4
Adjustments for:			
Depreciation of property, plant and equipment		13.9	9.8
Amortisation of intangible assets		4.1	3.8
Other items		2.5	3.5
Increase in inventories		(9.5)	(16.2)
(Increase)/decrease in receivables		(4.0)	4.6
Increase in payables		10.4	9.5
Underlying operating cash flow		57.4	48.4
Special payments to pension funds		(8.6)	(5.3)
Restructuring and acquisition related costs		(9.2)	(11.2)
Net cash generated from operations		39.6	31.9
Net income taxes paid		(3.7)	(6.8)
Net cash flow from operating activities		35.9	25.1
Cash flows from investing activities			
Interest received		0.1	0.1
Purchase of property, plant and equipment		(14.0)	(13.4)
Proceeds from sale of property, plant and equipment and grants received		0.4	4.2
Development expenditure		(3.9)	(3.7)
Purchase of other intangibles		(0.7)	(2.1)
Acquisitions of businesses		(2.4)	(63.9)
Dividends paid by subsidiary to former shareholders		-	(0.8)
Cash with acquired businesses		0.1	(3.2)
Disposal of subsidiaries		-	1.5
Tax arising on disposal of subsidiaries		(1.2)	(2.9)
Net cash flow from investing activities		(21.6)	(84.2)
Cash flows from financing activities			
Issue of share capital		0.9	0.6
Interest paid		(4.1)	(1.7)
Repayment of borrowings		-	(15.0)
Proceeds from borrowings		30.4	86.7
Payment of lease liabilities		(4.4)	(0.3)
Other items		(4.6)	(7.9)
Dividends paid by the Company		(10.9)	(9.7)
Net cash flow from financing activities		7.3	52.7
Net increase/(decrease) in cash and cash equivalents		21.6	(6.4)
Cash and cash equivalents at beginning of year	11	40.6	46.5
Exchange differences	11	(2.0)	0.5
Cash and cash equivalents at end of year	11	60.2	40.6

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 2019 which:

- was approved by the Directors on 3 March 2020;
- 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 2020; 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 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 Group has implemented IFRS 16 Leases with effect from 1 January 2019. The standard provides a single lessee accounting model, requiring lessees to recognise right-of-use assets and lease obligations for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Group has applied IFRS 16 using the modified retrospective approach under which the cumulative effect of initial application has been recognised in retained earnings at 1 January 2019 and comparative information has not been restated and continues to be reported under IAS17. The Group previously classified leases as operating or finance leases based on whether the lease transferred substantially all the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases (unless the lease term is 12 months or less or the underlying asset has a low value).

The Group recognises a lease liability at the lease commencement date (or on initial application), measured as the present value of the future lease payments, discounted at the incremental borrowing rate. A corresponding right-of-use asset is recognised separately on the face of the balance sheet, net of accumulated depreciation and impairment losses. For leases recognised on initial application, the right-of-use asset is initially measured at either the carrying amount if IFRS 16 had always been applied, or an amount equal to the initially recognised lease liability.

On transition, the Group recognised £18.0 million of right-of-use assets, £21.3 million of lease liabilities, an adjustment of £0.2 million to working capital, an adjustment of £0.8 million to deferred tax and an amount of £2.3 million recognised in retained earnings.

The Group recognised depreciation of £3.5 million and impairment of £2.7 million (reported outside of underlying operating profit) in respect of right-of-use assets and interest costs of £1.0 million in respect of leases in the year ended 31 December 2019.

3 Segmental reporting

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

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

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

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

During the year management responsibility for the Kuantan, Malaysia based Magnetics business was transferred from the Sensors and Specialist Components operating segment to the Power and Connectivity operating segment.

The key performance measure of the operating segments is underlying operating profit. Refer to note 7 for a definition of underlying operating profit and other alternative performance measures.
Corporate costs - Resources and costs of the head office managed centrally but deployed in support of the operating units are allocated to segments based on a combination of revenue and operating profit. Resources and costs of the head office which are not related to the operating activities of the trading units are not allocated to divisions and are separately disclosed, equivalent to the segment disclosure information, so that reporting is consistent with the format that is used for review by the chief operating decision maker. This gives greater transparency of the underlying operating profits for each segment.

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

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

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

3 Segmental reporting (continued)

a) Income statement information – continuing operations

£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total Operating Segments	Corporate	Total
						2019
Sales to external customers	**138.2**	**213.2**	**126.8**	**478.2**	**-**	**478.2**
Underlying operating profit	**16.5**	**15.4**	**15.3**	**47.2**	**(7.2)**	**40.0**
Adjustments to underlying operating profit (note 7)						**(21.2)**
Operating profit						**18.8**
Net finance costs (note 6)						**(3.7)**
Profit before taxation						**15.1**

£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total Operating Segments	Corporate	Total
						2018 [1]
Sales to external customers	115.5	181.8	132.2	429.5	-	429.5
Underlying operating profit	11.2	11.3	18.5	41.0	(7.6)	33.4
Adjustments to underlying operating profit (note 7)						(16.9)
Operating profit						16.5
Net finance costs (note 6)						(1.9)
Profit before taxation						14.6

[1] Restated for the transfer of the Malaysian Magnetics business from the Sensors and Specialist Components division to the Power and Connectivity division

There are no significant sales between segments.

b) Geographic information

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	2019	2018
United Kingdom	**139.4**	122.4
Rest of Europe	**89.6**	79.8
North America	**141.7**	121.9
Central and South America	**0.6**	1.1
Asia	**103.1**	100.7
Rest of the World	**3.8**	3.6
Total continuing operations	**478.2**	429.5

3 Segmental reporting (continued)

c) Market information

The Group operates in the following markets.

£million	2019	2018
Transportation	**54.5**	51.2
Aerospace and defence	**106.7**	80.4
Industrial	**201.2**	205.4
Medical	**115.8**	92.5
	478.2	429.5

4 Acquisitions

On 22 March 2019 the Group acquired the entire equity share capital of Power Partners Inc. for an initial cash consideration of $1.6 million (£1.2 million). An additional $1.3 million (£1.0 million) may become payable subject to business performance over the next two years, of which £1.0 million has been accrued at year end giving total consideration of £2.2 million. From the date of acquisition to the year end the business generated revenue of £3.3 million and operating profit of £0.5 million.

The provisional fair value of the net assets acquired were £1.3 million, including identifiable intangible assets of £0.8 million and other assets of £0.5 million, resulting in goodwill recognised on acquisition of £0.9 million.

Had the acquisition been completed on 1 January, the full year revenue and underlying operating profit would have been £487.5 million and £40.1 million respectively, compared to £487.2 million and £40.0 million as reported.

The acquisition enhances the Group’s technology capabilities in power products and improves our medical market access accelerating our organic technology roadmap and US medical market presence. The goodwill recognised on acquisition represents the Group’s view of the future earnings growth potential of the acquired businesses. The provisional fair values are based on the information currently available; if new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

4 Acquisitions (continued)

On 17 April 2018 the Group acquired the entire equity share capital of Stadium Group plc for £45.8 million in cash and assumed net debt of £13.9 million. On 1 June 2018 the Group acquired the entire equity share capital of Precision Inc. for an initial cash consideration of $23.5 million (£17.6 million), a further $0.5 million (£0.4 million) working capital adjustment paid in cash. An additional $1.1 million (£0.8 million) was due based on business performance and was settled in cash in February 2019. The measurement periods closed on 17 April 2019 and 1 June 2019 with no further adjustment to the provisional fair values shown below:

£million	Stadium Group plc	Precision Inc
Non-current assets		
Property, plant and equipment	4.1	1.2
Identifiable intangible assets	22.1	8.2
Deferred tax assets	2.3	-
Current assets / (liabilities)		
Inventory	14.6	2.0
Trade and other receivables	13.1	2.9
Cash / (overdraft)	(3.6)	0.4
Borrowings - current	(10.3)	-
Trade and other payables	(14.3)	(2.1)
Income taxes payable	(0.1)	-
Provisions - current	(0.9)	-
Non-current liabilities		
Pensions	(4.5)	-
Deferred tax liability	(4.0)	-
	18.5	12.6
Consideration paid		
Cash	45.8	18.0
Deferred consideration	-	0.8
Goodwill	27.3	6.2

5 Discontinued Operations

The results from discontinued operations shown in the consolidated income statement relates to release of divestment and tax provisions of £3.4 million (2018: £0.4 million) held in respect of disposals completed in earlier years.

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

£million	2019	2018
Disposal of subsidiaries	-	1.5
Tax arising on disposal of subsidiaries	(1.2)	(2.9)
Net cash flow	**(1.2)**	(1.4)

6 Finance costs and finance income

£million	2019	2018
Interest income	0.1	0.1
Interest income on pension surplus	0.8	0.4
Finance income	**0.9**	0.5
Interest expense	3.0	1.8
Interest on lease liabilities	1.0	-
Interest expense on pension liabilities	0.2	0.2
Amortisation of arrangement fees	0.4	0.4
Finance costs	**4.6**	2.4
Net finance costs	**3.7**	1.9

7 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 recognise the following alternative performance measures: underlying operating profit, free cash flow, cash conversion, organic revenue growth, underlying EPS (see note 10), underlying effective tax rate and return on invested capital.

Underlying operating profit

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

7 Alternative performance measures (continued)

£million	2019 Operating profit	2019 Tax	2018 Operating profit	2018 Tax
As reported	18.8	(1.2)	16.5	(1.6)
Restructuring and other				
Restructuring	(12.8)	3.0	(2.7)	0.4
Property items	-	-	3.6	-
Pensions past service charge	(0.4)	0.1	(5.8)	1.1
	(13.2)	3.1	(4.9)	1.5
Acquisition related costs				
Release of acquisition current tax provision	-	-	-	0.6
Amortisation of intangible assets arising on business combinations	(4.5)	1.0	(4.8)	1.2
Other acquisition related costs	(3.5)	0.5	(7.2)	0.4
	(8.0)	1.5	(12.0)	2.2
Total items excluded from underlying measure	(21.2)	4.6	(16.9)	3.7
Underlying measure	40.0	(5.8)	33.4	(5.3)

Restructuring £13.2 million (2018: £4.9 million)

In the year ended 31 December 2019 total restructuring costs amounted to £13.2 million of which £8.7 million related to the ongoing restructuring of the footprint of the Sensors and Specialist Components division (comprising impairment of right-of-use assets, property, plant and equipment resulting from the planned closure of one of our facilities in Mexicali, Mexico (£3.9 million) and the closure of our office in Brea, California (£0.3 million) and £4.5 million of other costs), £2.1 million to restructuring the site footprint acquired with the Stadium Group, £1.2 million to restructuring the site footprint of the Power and Connectivity Division, £0.8 million for other restructuring and £0.4 million to a pension past service charge as a result of UK pensions schemes having to equalise male and female members' benefits in respect of guaranteed minimum pensions.

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

Acquisition and disposal related costs £8.0 million (2018: £12.0 million)

In the year ended 31 December 2019 acquisition and disposal related costs amounted to £8.0 million which comprises £4.5 million of amortisation of acquired intangible assets and £3.5 million of other acquisition related costs largely relating to the integration of Stadium Group and Precision Inc., the acquisition of Power Partners Inc. and the acquisition of the aerospace and power supply business of Excelitas Technologies Corporation.

7 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	2019	2018
Net cash flow from operating activities	35.9	25.1
Net cash flow from investing activities	(21.6)	(84.2)
Add back: Acquisition of business	2.4	63.9
Add back: Dividends paid by subsidiary to former shareholders	-	0.8
Add back: Cash with acquired businesses	(0.1)	3.2
Add back: Disposal of subsidiaries	-	(1.5)
Add back: Tax arising from disposal of subsidiaries	1.2	2.9
Payment of lease liabilities previously reported as operating leases	(4.0)	-
Interest paid	(4.1)	(1.7)
Free cash flow	9.7	8.5

Cash conversion

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

£million	2019	2018
Underlying operating profit	40.0	33.4
Underlying operating cash flow	57.4	48.4
Purchase of property, plant and equipment	(14.0)	(13.4)
Proceeds from sale of plant and equipment and grants received	0.4	0.3
Development expenditure	(3.9)	(3.7)
Purchase of other intangibles	(0.7)	(2.1)
Underlying operating cash flow post capex	39.2	29.5
Cash conversion	98%	88%

7 Alternative performance measures (continued)

Organic revenue growth

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

£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total
2019 revenue	**138.2**	**213.2**	**126.8**	**478.2**
Acquisitions	**(19.5)**	**(6.3)**	**-**	**(25.8)**
2019 revenue (excluding acquisitions)	**118.7**	**206.9**	**126.8**	**452.4**
2018 revenue	115.5	181.8	132.2	429.5
Foreign exchange impact	1.2	2.2	4.2	7.6
2018 revenue at 2019 exchange rates	116.7	184.0	136.4	437.1
Organic revenue growth (%)	**2%**	**12%**	**(7%)**	**4%**

Underlying earnings per share

This is the profit for the year attributable to the owners of the Company adjusted to exclude the items not included within underlying operating profit divided by the weighted average number of shares in issue during the year (see note 10).

Underlying EPS is a standard metric to determine corporate profitability for shareholders and it is a measure used as one of the performance conditions in the Group's Long-term Incentive Plan. See note 10 for the calculation of underlying earnings per share.

Underlying effective tax rate

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

£million	2019	2018
Underlying profit	**40.0**	33.4
Net interest	**(3.7)**	(1.9)
Underlying profit before tax	**36.3**	31.5
Underlying tax	**5.8**	5.3
Underlying effective tax rate	**16.0%**	16.8%

7 Alternative performance measures (continued)

Return on invested capital

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

£million	2019	2019[1]	2018
Underlying profit	**40.0**	**39.2**	33.4
Average invested capital	**354.0**	**338.6**	289.8
Return on invested capital	**11.3%**	**11.6%**	11.5%

[1] Amounts adjusted for the impact of IFRS 16 (underlying operating profit is adjusted to remove right-of-use asset depreciation and add back IAS17 operating lease rentals. Invested capital excludes right-of-use assets).

8 Taxation

a) Analysis of the tax charge for the year

UK tax is calculated at 19% (2018: 19%) 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 7.9% (the underlying tax rate was 16.0%, see note 7).

Included within the total tax charge above is a £4.6 million credit relating to items reported outside underlying profit (2018: £3.7 million).

£million	2019	2018
Current tax		
Current income tax charge	**3.7**	6.3
Adjustments in respect of current income tax of previous year	**(3.1)**	(2.9)
Total current tax charge	**0.6**	3.4
Deferred tax		
Relating to origination and reversal of temporary differences	**1.4**	(1.3)
Change in tax rate	**0.1**	0.1
Recognition of previously unrecognised deferred tax assets	**(0.9)**	(0.6)
Total deferred tax credit	**0.6**	(1.8)
Total tax charge in the income statement - continuing operations	**1.2**	1.6

8 Taxation (continued)

b) Reconciliation of the total tax charge for the year

£million	2019	2018
Profit before tax from continuing operations	**15.1**	14.6
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	**2.9**	2.8
Effects of:		
Impact on deferred tax arising from changes in tax rates	**0.1**	0.1
Overseas tax rate differences	**1.0**	1.2
Items not deductible for tax purposes or income not taxable	**1.6**	1.2
Adjustment to current tax in respect of prior periods	**(3.1)**	(2.9)
Recognition of previously unrecognised deferred tax assets	**(0.9)**	(0.6)
Current year tax losses and other items not recognised	**(0.4)**	(0.2)
Total tax charge reported in the income statement	**1.2**	1.6

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

9 Dividends

	2019 pence per share	2019 £million	2018 pence per share	2018 £million
Final dividend for prior year	**4.55**	**7.4**	4.05	6.6
Interim dividend for current year	**2.10**	**3.4**	1.95	3.1
	6.65	**10.8**	6.00	9.7

The Directors recommend a final dividend of 4.9 pence per share which when combined with the interim dividend of 2.1 pence per share gives a total dividend for the year of 7.0 pence per share. The Group has a progressive dividend policy. The final dividend will be paid on 15 May 2020 to shareholders on the register on 24 April 2020.

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the 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	2019	2018
Basic earnings per share		
Continuing operations	8.5	8.0
Discontinued operations	2.1	0.3
Total	10.6	8.3

Pence	2019	2018
Diluted earnings per share		
Continuing operations	8.4	7.8
Discontinued operations	2.0	0.3
Total	10.4	8.1

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

Underlying earnings per share:

£million	2019	2018
Continuing operations		
Profit for the year attributable to owners of the Company	13.9	13.0
Restructuring and other	13.2	4.9
Acquisition and disposal related costs	8.0	12.0
Tax effect of above items (see note 7)	(4.6)	(3.7)
Underlying earnings	30.5	26.2
Underlying earnings per share (pence)	18.7	16.2

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

Million	2019	2018
Basic	163.1	161.8
Adjustment for share awards	3.3	4.6
Diluted	166.4	166.4

11 Reconciliation of net cash flow to movement in net debt

£million	Net cash	Borrowings and lease liabilities	Unamortised loan arrangement fees	Net (debt)/funds
At 1 January 2018	46.5	(0.6)	1.1	47.0
Cash flow	(6.4)	-	-	(6.4)
Businesses acquired	-	(10.3)	-	(10.3)
Repayment of borrowings	-	15.0	-	15.0
Proceeds from borrowings	-	(86.7)	-	(86.7)
Finance lease payments	-	0.3	-	0.3
Amortisation of loan arrangement fees	-	(0.4)	-	(0.4)
Reclassification of loan arrangement fees	-	1.1	(1.1)	-
Exchange differences	0.5	(0.7)	-	(0.2)
At 1 January 2019	**40.6**	**(82.3)**	**-**	**(41.7)**
Adjustment on initial application of IFRS 16	**-**	**(21.3)**	**-**	**(21.3)**
Adjusted balance at 1 January 2019	**40.6**	**(103.6)**	**-**	**(63.0)**
Cash flow	**21.6**	**-**	**-**	**21.6**
Businesses acquired	**-**	**(0.2)**	**-**	**(0.2)**
Proceeds from borrowings	**-**	**(30.4)**	**-**	**(30.4)**
Payment of lease liabilities	**-**	**4.4**	**-**	**4.4**
Amortisation of loan arrangement fees	**-**	**(0.4)**	**-**	**(0.4)**
New finance leases	**-**	**(0.7)**	**-**	**(0.7)**
Lease disposal	**-**	**0.4**	**-**	**0.4**
Exchange differences	**(2.0)**	**1.2**	**-**	**(0.8)**
At 31 December 2019	**60.2**	**(129.3)**	**-**	**(69.1)**

12 Retirement benefit schemes

Defined contribution schemes

The Group operates 401(k) plans in North America and defined contribution arrangements in the rest of the world. The assets of these schemes are held independently of the Group. The total contributions charged by continuing operations in respect of defined contribution schemes were £3.5 million (2018: £3.0 million).

Defined benefit schemes

At 31 December 2018 the Group operated three defined benefit schemes in the UK (the TT Group scheme, the Stadium Group and Southern & Redfern schemes) and overseas defined benefit schemes in the USA. These schemes are closed to new members and the UK scheme is closed to future accrual. In order to improve governance of the UK pension schemes, as well as drive cost efficiency, the Stadium Group scheme was merged into the TT Group scheme (the Group's main scheme) with effect from 29 March 2019.

The triennial valuation of the TT Group scheme as at April 2019 showed a net surplus of £0.3 million against the Trustee's funding objective compared with a net deficit of £46.0 million at April 2016. As the scheme was fully funded at the 2019 triennial valuation date, there is no requirement for the Company to pay deficit repair contributions. In addition to the statutory funding objective, the Trustee and Company have agreed to move towards a 'self-sufficient' funding target, under which once full funding is achieved the likelihood of the Trustee requiring subsequent contributions from the Company is significantly reduced. To support the scheme's long-term funding target of self-sufficiency the Company has agreed to pay additional fixed contributions of £5.3 million, £5.5 million, £5.7 million and £4.4 million to be paid in the years 2020 to 2023.

In addition, the Company has set aside £2.5 million to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme.

The amounts recognised in respect of the pension surplus in the consolidated balance sheet are:

£million	2019	2018
Fair value of assets	583.1	541.6
Defined benefit obligation	(566.5)	(525.1)
Net surplus	16.6	16.5
Represented by:		
UK	21.2	20.8
USA	(4.6)	(4.3)
	16.6	16.5

Amounts recognised in the consolidated income statement are:

£million	2019	2018
Scheme administration costs	1.0	1.3
Past service cost (non-underlying)	0.4	5.8
Net interest credit	0.6	0.2

13 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 2019 or 2018 that have affected the financial position or performance of the Group.

14 Principal risk and uncertainties

The Group continues to be exposed to 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; sustainability, environment, health and safety; and legal and regulatory compliance.

15 Subsequent events

On 3 January 2020 the Group acquired the trade and assets of the aerospace and defence power supply business of Excelitas Technologies Corp based in Covina, California, for an initial cash consideration of $17.7 million (£13.7 million) and subject to an additional adjustment dependant on the level of working capital. The provisional fair values of the identifiable assets and liabilities acquired are as follows:

£million	
Non-current assets	
Property, plant and equipment	**5.4**
Current assets / (liabilities)	
Inventory	**1.3**
Trade and other receivables	**1.8**
Trade and other payables	**(0.5)**
	8.0
Consideration	
Cash consideration net of the impact of hedging	**13.7**
Goodwill and acquired intangibles	**5.7**