2018 Final Results, 6 March 2019

TT Electronics plc

Results for the year ended 31 December 2018

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An analyst presentation will be held today at 8.00am 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.

Results for the year ended 31 December 2018

Strong performance across all key metrics

£ million unless otherwise stated	Underlying[1]				Statutory	
	2018	2017[5]	Change	Change constant fx	**2018**	2017[5]
Continuing Operations						
Revenue	**429.5**	361.1	19%	21%	**429.5**	361.1
Operating profit	**33.4**	24.3	37%	42%	**16.5**	20.0
Operating profit margin (%)	**7.8%**	6.7%	110bps	120bps		
Profit before tax	**31.5**	22.0	43%	48%	**14.6**	17.7
Earnings per share (pence)	**16.2p**	10.9p	49%	54%	**8.0p**	9.7p
Return on invested capital[2]	**11.5%**	10.6%	90bps	90bps		
Cash conversion[3]	**88%**	98%				
Total Operations						
Earnings per share (pence)					**8.3p**	29.5p
Free cash flow[4]					**8.5**	4.7
Net (debt)/funds					**(41.7)**	47.0
Dividend per share (pence)					**6.5p**	5.8p

1. Excluding the effect of restructuring and other non-recurring costs and acquisition related costs
2. Rolling 12 month underlying operating profit return on average invested capital
3. Underlying operating cash flow (EBITDA less net capital expenditure excluding property disposals, capitalised development expenditure, working capital and non-cash movements) divided by underlying operating profit
4. Net cash flow from operating activities less net cash flow from investing activities less interest paid. Please see note 7 for more information
5. Re-stated for IFRS 15

Strategic highlights

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

Financial headlines

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

Richard Tyson, Chief Executive Officer, said:

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

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

2018 OVERVIEW

2018 was another busy and successful year for TT. We delivered strong organic growth and excellent profit progression. Our underlying operating profit margin is now 7.8 per cent, up from 4.3 per cent three years ago. We enhanced our capabilities and market access with the acquisition of two businesses; Stadium (April 2018) and Precision (June 2018). We ended the year signing a joint venture agreement with our long-term partner UniRoyal Electronics (“UniRoyal”). UniRoyal is a large Chinese manufacturer of sensing and power management devices. The joint venture will enhance future growth opportunities by giving access to higher volume market segments than TT currently addresses.

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

STRONG ORGANIC GROWTH AND MARGIN PROGRESSION

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

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

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

INVESTING FOR GROWTH

Our strategy

TT is a global provider of engineered electronics for performance critical applications. We are focused on three areas: sensing, power and connectivity, underpinned by our global manufacturing footprint. We create differentiated capabilities through R&D and engineering smarter solutions with our customers by working as strategic partners.

Underpinning our strategy and fundamental to the success of our business is the engagement of our employees and we are committed to making TT a great place to work. We focus our efforts on putting engagement at the heart of the TT strategy and we have achieved another year of improved engagement. In our annual employee survey, TT has been benchmarked as a 1* great place to work (benchmark from Best Companies Ltd). We have invested in improving our organisational capabilities and hiring top talent to ensure we fulfil our potential. We continue to develop the diversity of our senior leadership team through our internal development plans, our recruitment processes, and by encouraging new talent to join the sector.

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

Value-enhancing acquisitions

During the year, we acquired Stadium (April 2018) and Precision (June 2018). The acquisitions have broadened our portfolio, extended our technical capability and our reach into our target markets. Stadium is a leading provider of design-led connectivity solutions across industrial, transportation, medical and aerospace and defence markets. Stadium contributed revenue of £42.8 million in just over 8 months of ownership and underlying operating profit of £4.3 million resulting in an operating profit margin of 10.0 per cent. The integration has progressed well and is now complete. As part of the integration, we have invested in engineering, business development, and talent to strengthen our business. We have established a new advanced technology centre in Shenzhen, China, for custom engineering for connectivity solutions to help unlock opportunity from the market growth being driven by industrial Internet of Things ("IoT") solutions. Synergies have been realised during the year, including savings associated with the removal of plc cost duplication and the consolidation of sales networks in North America. Procurement supply chain savings have been identified and TT's supply chain team are now directly supporting Stadium's operations. We are confident of delivering the full synergy plan early, with incremental benefit from additional opportunities identified from consolidating our operational capabilities now underway. We are preparing one of our North America facilities to deliver products to Stadium's North American customer base and have introduced Stadium to TT's distribution partners.

Precision is an industry-leading designer and manufacturer of precision electromagnetic product solutions for critical applications, primarily in medical markets. Precision contributed £10.2 million of revenue in 7 months of ownership. Underlying operating profit was £1.1 million, with an underlying operating profit margin of 10.8 per cent. The acquisition extends our capabilities by adding new design, simulation and manufacturing capabilities including ultra-fine wire winding. Precision provides an enhanced presence for us in the US, with close proximity to a hub of medical customers in Minneapolis. The technical capabilities in Precision have highlighted new opportunities to expand into aerospace and defence markets using TT's domain expertise in this sector. The integration is proceeding to plan, and we are moving forward with the optimisation of our electromagnetics operations. We anticipate the integration and associated costs to be c.£3 million.

Business development

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

During the year, we continued our investment in our business development capabilities, training all our customer facing employees and providing new tools for them. Our success is reflected in the number of new contracts with existing customers and new customers won during the year. We have identified key accounts across the Group which we are using our new business development approach with to develop into strategic partnerships and identify future revenue potential. Our aerospace and defence key accounts grew by 10 per cent in Power and Connectivity. We have a sales council which focuses on unlocking cross-divisional opportunities. During the year, we won a multi-year contract with a US aerospace systems company following collaboration between our Power and Connectivity and Global Manufacturing Solutions divisions. We have been focused on shifting our customer mix, winning and developing customer relationships with those customers that are the ‘right fit’ for TT, with long term growth potential. We secured 14 new customers in Global Manufacturing Solutions, double the amount won in 2017.

R&D and value-added product solutions

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

During the year, we launched 5 new sensing and power management devices. In addition to new platform product launches, we have also focused on the rapid provision of custom solutions to our customers. In our sensors business, we launched a quick response programme resulting in 28 new orders of customisations for our optoelectronic sensor platforms, helping our customers get their products to market rapidly.

Operational excellence

We strive to deliver operational excellence at each of our sites and want our customers to recognise TT for outstanding service. This year we deployed resources in the sites where our operational performance has been below TT benchmark levels. Our self-help actions have led to improvement in profitability and margin. In the Global Manufacturing Solutions division, our UK business has achieved significant improvements during the year. As a result of increased customer confidence, the UK business won 6 new contracts during the year compared to 1 in 2017. We see more opportunity to improve our operational performance.

DIVISIONAL REVIEWS
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.

(£million)	2018	2017	Change	Change constant fx
Revenue	**£149.8m**	£142.3m	5%	8%
Underlying operating profit[1]	**£21.3m**	£18.8m	13%	16%
Operating profit margin[1]	**14.2%**	13.2%	100bps	90bps

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

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

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

During the year, we announced a joint venture with UniRoyal for sensing and power management devices with our long-term supply partner. UniRoyal is a large manufacturer in this growing technology area. The partnership will combine TT's design engineering and worldwide distribution channels with Uniroyal's penetration in the Asian market and higher volume manufacturing capabilities. Together, we will be able to address medium volume opportunities with our existing customer base across a variety of markets.

We achieved strong growth in our sensing and power management product lines. These product lines sense and manage the power in electric circuits, protecting, managing or measuring current to optimise the performance of the electrical system. The strong growth was a result of market demand, particularly in our products that measure current, with 3 notable new contract wins. We also saw good growth from a platform of products that we identified as a priority in 2015 and have been in a ramp-up phase over the last three years. In 2018 sales growth from this product line contributed well to revenue growth. Following the success of previous product launches, we've continued to invest in the development of further platforms. We launched 5 new sensing and power management products during the year supported by our new product and testing cell in Bedlington which allows us to respond to requests from customers faster.

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

POWER AND CONNECTIVITY

The Power and Connectivity division 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.

(£million)	**2018**	2017[2]	Change	Change constant fx
Revenue	**£97.9m**	£64.5m	52%	53%
Underlying operating profit[1]	**£8.4m**	£6.2m	36%	40%
Operating profit margin[1]	**8.6%**	9.6%	(100)bps	(80)bps

1. Excluding restructuring costs, asset impairments and acquisition related costs
2. Re-stated for IFRS 15

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

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

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

Following an increased focus on key account management, we grew our revenues with these customers in aerospace and defence by 10 per cent. The macro trend towards the “more electric aircraft” continues to drive demand for our solutions. We won a development contract to supply power modules for a new E-Taxi system on the Airbus A320. The E-Taxi system will power the aircraft using electricity rather than the jet engine during taxiing to and from the runway, resulting in reduced carbon emissions.

We made progress with our connectivity offerings, securing a partnership with a major distributor for the production of IoT solutions based around single board computers. We saw good growth in the second half of the year across our connectivity offerings. We also launched a range of connectivity platform products to drive growth for future years. The IoT hardware platform product range has the ability to be rapidly customised for end customer requirements. An example application is for a European medical customer where we had good growth this year. This connectivity device is used to remotely monitor medical equipment and patients in their homes or a care centre.

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

GLOBAL MANUFACTURING SOLUTIONS

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

(£million)	2018	2017[2]	Change	Change constant fx
Revenue	**£181.8m**	£154.3m	18%	19%
Underlying operating profit[1]	**£11.3m**	£6.5m	74%	77%
Operating profit margin[1]	**6.2%**	4.2%	200bps	200bps

1. Excluding restructuring costs, asset impairments and acquisition related costs
2. Re-stated for IFRS 15

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

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

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

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

During the year, we delivered strong operational improvement in our UK operations. We won 6 new contracts in the UK, including aerospace and defence contracts for a European aerospace OEM and a new contract for a military aerospace programme.

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

OTHER FINANCIAL INFORMATION

Corporate costs were £7.6 million (2017: £7.2 million) with the increase linked to the growth of the business.

The net interest expense of £1.9 million decreased by £0.4 million (2017: £2.3 million), with the charge increasing in the second half as a result of the acquisitions of Stadium and Precision. Underlying profit before tax improved to £31.5 million (2017: £22.0 million), an increase of 48 per cent at constant currency.

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

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

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

Closing net debt at the end of the year was £41.7 million (2017: net funds £47.0 million). As a result, net debt to EBITDA at the end of the year was 0.9x (2017: nil).

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

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

DIVIDEND

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

OUTLOOK

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

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

GOING CONCERN

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

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
5 March 2019

Mark Hoad
Chief Financial Officer
5 March 2019

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 2018

£million (unless otherwise stated)	Note	2018	2017 [1]
Revenue	3	**429.5**	361.1
Cost of sales		**(318.8)**	(268.3)
Gross profit		**110.7**	92.8
Distribution costs		**(26.4)**	(22.7)
Administrative expenses		**(69.5)**	(50.8)
Other operating income		**1.7**	0.7
Operating profit		**16.5**	20.0
Analysed as:			
Underlying operating profit	3	**33.4**	24.3
Restructuring and other	7	**(4.9)**	(1.6)
Acquisition related costs	7	**(12.0)**	(2.7)
Finance income	6	**0.5**	0.1
Finance costs	6	**(2.4)**	(2.4)
Profit before taxation		**14.6**	17.7
Taxation	8	**(1.6)**	(2.0)
Profit from continuing operations		**13.0**	15.7
Discontinued operations			
Profit from discontinued operations	5	**0.4**	32.0
Profit for the period attributable to the owners of the Company		**13.4**	47.7
EPS attributable to owners of the Company (pence)			
Basic			
Continuing operations	10	**8.0**	9.7
Discontinued operations	10	**0.3**	19.8
		8.3	29.5
Diluted			
Continuing operations	10	**7.8**	9.5
Discontinued operations	10	**0.3**	19.3
		8.1	28.8

[1] *Re-stated for IFRS 15*

Consolidated statement of comprehensive income

for the year ended 31 December 2018

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

Consolidated balance sheet

at 31 December 2018

£million	Note	2018	2017[1]
ASSETS			
Non-current assets			
Property, plant and equipment		**51.7**	41.8
Goodwill		**137.9**	100.3
Other intangible assets		**55.0**	27.3
Deferred tax assets		**6.1**	5.6
Pensions	12	**24.9**	15.1
Total non-current assets		**275.6**	190.1
Current assets			
Inventories		**96.4**	61.8
Trade and other receivables		**76.2**	66.0
Income taxes receivable		**1.6**	1.3
Derivative financial instruments		**0.4**	1.6
Cash and cash equivalents		**40.6**	46.5
Total current assets		**215.2**	177.2
Total assets		**490.8**	367.3
LIABILITIES			
Current liabilities			
Borrowings		**0.4**	0.3
Derivative financial instruments		**2.1**	0.6
Trade and other payables		**96.0**	67.0
Income taxes payable		**13.2**	19.0
Provisions		**4.4**	7.3
Total current liabilities		**116.1**	94.2
Non-current liabilities			
Borrowings		**81.9**	0.3
Deferred tax liability		**4.8**	2.0
Pensions	12	**8.4**	3.2
Other non-current liabilities		**0.1**	0.1
Total non-current liabilities		**95.2**	5.6
Total liabilities		**211.3**	99.8
Net assets		**279.5**	267.5
EQUITY			
Share capital		**40.8**	40.7
Share premium		**3.4**	2.9
Other reserves		**2.7**	8.4
Hedging and translation reserve		**39.1**	33.5
Retained earnings		**191.5**	180.0
Equity attributable to owners of the Company		**277.5**	265.5
Non-controlling interests		**2.0**	2.0
Total equity		**279.5**	267.5

[1] *Re-stated for IFRS 15*

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

Richard Tyson	**Mark Hoad**
Director	Director

Consolidated statement of changes in equity

for the year ended 31 December 2018

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

[1] *Re-stated for IFRS 15*

Consolidated cash flow statement

for the year ended 31 December 2018

£million	Note	2018	2017
Cash flows from operating activities			
Profit for the year		**13.4**	47.7
Taxation		**1.6**	2.0
Net finance costs		**1.9**	2.3
Restructuring and other		**4.9**	1.6
Acquisition related costs		**12.0**	2.7
Profit from discontinued operations		**(0.4)**	(32.0)
Underlying operating profit		**33.4**	24.3
Adjustments for:			
Depreciation of property, plant and equipment		**9.8**	9.0
Amortisation of intangible assets		**3.8**	3.8
Other items		**3.5**	3.4
Increase in inventories		**(16.2)**	(7.4)
Decrease in receivables		**4.6**	3.0
Increase in payables		**9.5**	2.5
Underlying operating cash flow		**48.4**	38.6
Operating cash flow from discontinued operations		**-**	5.9
Special payments to pension funds		**(5.3)**	(4.7)
Restructuring and acquisition related costs		**(11.2)**	(4.9)
Net cash generated from operations		**31.9**	34.9
Net income taxes paid		**(6.8)**	(5.6)
Net cash flow from operating activities		**25.1**	29.3
Cash flows from investing activities			
Interest received		**0.1**	0.1
Purchase of property, plant and equipment		**(13.4)**	(11.4)
Proceeds from sale of investment property, plant and equipment and grants received		**4.2**	1.6
Development expenditure		**(3.7)**	(1.6)
Purchase of other intangibles		**(2.1)**	(2.1)
Investing cash flow from discontinued operations		**-**	(9.2)
Acquisitions of businesses		**(63.9)**	(1.2)
Dividends paid by subsidiary to former shareholders		**(0.8)**	-
Cash with acquired businesses		**(3.2)**	-
Disposal of subsidiaries		**1.5**	116.1
Tax arising on disposal of subsidiaries		**(2.9)**	-
Cash with disposed businesses		**-**	(2.4)
Net cash flow from investing activities		**(84.2)**	89.9
Cash flows from financing activities			
Issue of share capital		**0.6**	0.9
Interest paid		**(1.7)**	(2.0)
Repayment of borrowings		**(15.0)**	(119.1)
Proceeds from borrowings		**86.7**	13.9
Other items		**(7.9)**	(6.3)
Finance leases		**(0.3)**	(0.3)
Dividends paid by the Company		**(9.7)**	(9.1)
Net cash flow from financing activities		**52.7**	(122.0)
Net decrease in cash and cash equivalents		**(6.4)**	(2.8)
Cash and cash equivalents at beginning of year	11	**46.5**	49.8
Exchange differences	11	**0.5**	(0.5)
Cash and cash equivalents at end of year	11	**40.6**	46.5

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 2018 which:

- was approved by the Directors on 5 March 2019;
- 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 2019; 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 financial statements have been prepared using consistent accounting policies.

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

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

The Group also adopted IFRS 9 Financial Instruments in the year ended 31 December 2018. Adoption of the new standard did not have a material impact on the Group.

3 Segmental reporting

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

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

3 Segmental reporting (continued)

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

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

The key performance measure of the operating segments is underlying operating profit. Refer to note 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 which they are part of.

a) Income statement information – continuing operations

						2018
£million	**Sensors and Specialist Components**	**Power and Connectivity**	**Global Manufacturing Solutions**	**Total Operating Segments**	**Corporate**	**Total**
Sales to external customers	**149.8**	**97.9**	**181.8**	**429.5**	**-**	**429.5**
Underlying operating profit	**21.3**	**8.4**	**11.3**	**41.0**	**(7.6)**	**33.4**
Adjustments to underlying operating profit (note 7)						**(16.9)**
Operating profit						**16.5**
Net finance costs (note 6)						**(1.9)**
Profit before taxation						**14.6**

3 Segmental reporting (continued)

£million	Sensors and Specialist Components	Power and Connectivity	Global Manufacturing Solutions	Total Operating Segments	Corporate	2017 (re-stated) Total
Sales to external customers	142.3	64.5	154.3	361.1	-	361.1
Underlying operating profit	18.8	6.2	6.5	31.5	(7.2)	24.3
Adjustments to underlying operating profit (note 7)						(4.3)
Operating profit						20.0
Net finance costs (note 6)						(2.3)
Profit before taxation						17.7

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

4 Acquisitions

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

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

In addition, on 1 June 2018 the Group acquired the entire equity share capital of Precision Inc. for an initial cash consideration of $23.5 million (£17.6 million), a further $0.5 million (£0.4 million) working capital adjustment paid in cash. An additional $4.0 million (£3.0 million) may become payable subject to business performance of which $1.1 million (£0.8 million) was provided at year end and settled in cash in February 2019.

4 Acquisitions (continued)

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

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

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

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

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

5 Discontinued Operations

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

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

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

[1] Re-stated for IFRS 15.

The profit on disposal of discontinued operations is analysed below:

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

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

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

6 Finance costs and finance income

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

7 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 10) and underlying effective tax rate. Free cash flow includes cash flow from discontinued operations as this better reflects the overall funding position of the Group.

Underlying operating profit

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

7 Alternative performance measures (continued)

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

Restructuring and other £4.9 million (2017: £1.6 million)

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

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

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

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

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

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

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

Cash conversion

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

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

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

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 10).

Underlying effective tax rate

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

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

Return on invested capital

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

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

8 Taxation

a) Analysis of the tax charge for the year

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

UK tax is calculated at 19% (2017: 19.25%) of taxable profits. Overseas tax is calculated at the tax rates prevailing in the relevant countries. The Group's effective tax rate for the year from continuing operations was 11.0% (the underlying tax rate was 16.8%) (see note 7).

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

b) Reconciliation of the total tax charge for the year

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

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

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

9 Dividends

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

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

10 Earnings per share

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

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

Pence	2018	2017
Basic earnings per share		
Continuing operations	**8.0**	9.7
Discontinued operations	**0.3**	19.8
Total	**8.3**	29.5

Pence	2018	2017
Diluted earnings per share		
Continuing operations	**7.8**	9.5
Discontinued operations	**0.3**	19.3
Total	**8.1**	28.8

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

Underlying earnings per share:

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

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

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

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

£million	Net cash	Borrowings and finance leases	Unamortised loan arrangement fees	Net (debt)/funds
At 1 January 2017	49.8	(105.2)	-	(55.4)
Cash flow	(2.8)	-	-	(2.8)
Repayment of borrowings	-	119.1	-	119.1
Proceeds from borrowings	-	(13.9)	-	(13.9)
Finance lease payments	-	0.3	-	0.3
Amortisation of loan arrangement fees	-	(0.3)	-	(0.3)
Reclassification of loan arrangement fees	-	(1.1)	1.1	-
Exchange differences	(0.5)	0.5	-	-
At 1 January 2018	**46.5**	**(0.6)**	**1.1**	**47.0**
Cash flow	**(6.4)**	**-**	**-**	**(6.4)**
Businesses acquired	**-**	**(10.3)**	**-**	**(10.3)**
Repayment of borrowings	**-**	**15.0**	**-**	**15.0**
Proceeds from borrowings	**-**	**(86.7)**	**-**	**(86.7)**
Finance lease payments	**-**	**0.3**	**-**	**0.3**
Amortisation of loan arrangement fees	**-**	**(0.4)**	**-**	**(0.4)**
Reclassification of loan arrangement fees	**-**	**1.1**	**(1.1)**	**-**
Exchange differences	**0.5**	**(0.7)**	**-**	**(0.2)**
At 31 December 2018	**40.6**	**(82.3)**	**-**	**(41.7)**

Net cash includes overdraft balances of £nil (2017: £nil).

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 the Group in respect of defined contribution schemes were £3.0 million (2017: £2.4 million).

Defined benefit schemes

At 31 December 2017 the Group operated a significant defined benefit scheme in the UK (the TT Group scheme) and schemes in the USA (which includes a post-retirement medical benefit element). On the acquisition of Stadium, the Group acquired two new UK defined benefit schemes (Stadium Group and Southern & Redfern schemes). The Group's main scheme is the TT Group scheme 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 TT Group scheme. The TT Group scheme is governed by TTG Pension Trustees Limited (the "Trustee") that has control over the operation, funding and investment strategy in consultation with the Group.

The triennial valuation of the TT Group scheme as at April 2016 showed a deficit of £46.0 million against the Trustee's funding objective compared with £19.1 million at April 2013. The Company has agreed additional fixed contributions extending to 2020 with the TT Group scheme, based on the actuarial deficit at April 2016. These planned contributions amount to £5.1 million and £3.9 million to be paid over the next two years. In addition, the Company has set aside £2.6 million to be utilised in agreement with the Trustee for reducing the long-term liabilities of the TT Group scheme. The TT Group, Stadium Group, Southern & Redfern and USA schemes are closed to new members and the TT Group, Stadium Group and Southern & Redfern schemes were closed to future accrual in 2010, 2011 and 2001 respectively.

12 Retirement benefit schemes (continued)

The triennial valuation of the Stadium Group scheme as at April 2017 showed a deficit of £4.3 million against the Trustee's funding objective. The Group has agreed fixed contributions of £0.6 million per annum through to 2025 with the Stadium Group scheme, based on the actuarial deficit at April 2017.

A High Court judgment regarding the equalisation of GMP was published on 26 October 2018. The judgment itself related to the Lloyds Banking Group's pension schemes and requirements to equalise scheme benefits, to address the inherent inequality between genders caused by GMP legislation. GMP is the minimum benefit that must be provided by a pension scheme to a member who had been contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. This ruling has implications for all occupational pension schemes; including the Group's UK schemes; that were contracted out of SERPS on a defined benefit basis between 17 May 1990 and 5 April 1997.

The Group is currently working with the schemes' Trustees regarding the implications of the High Court ruling on GMP equalisation. The TT Scheme and Stadium Group Scheme liabilities at 31 December 2018 include an allowance for the potential additional cost of implementing GMP equalisation in the future as a result of the increases to members' benefits that will be required, currently estimated to be £5.8 million. This allowance has been recognised in the income statement within items excluded from underlying operating profit.

An actuarial valuation of the USA defined benefit schemes was carried out by independent qualified actuaries in 2018 using the projected unit credit method. Pension scheme assets are stated at their market value at 31 December 2018.

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

£million	**2018**	2017
Fair value of assets	**541.6**	559.8
Present value of defined benefit obligation	**(525.1)**	(547.9)
Net surplus recognised in the consolidated balance sheet	**16.5**	11.9
Represented by:		
UK	**20.8**	15.1
USA	**(4.3)**	(3.2)
	16.5	11.9

Amounts recognised in the consolidated income statement are:

£million	**2018**	2017
Scheme administration costs	**1.3**	1.2
Past service cost/(credit) (non-underlying)	**5.8**	(2.3)
Net interest (credit)/cost	**(0.2)**	0.1

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 2018 or 2017 that have affected the financial position or performance of the Group.

14 Principal risks 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.