TT Electronics

Unlocking our potential

TT Electronics plc
Annual Report and Accounts 2016

"We are pleased with the strong performance achieved in 2016, ahead of expectations. This has resulted in improved growth and profitability for the Group, and our free cash flow performance has been excellent."

Richard Tyson
Chief Executive Officer

Headline performance

Revenue
£569.9m
2015: £509.9m
+3%[2]

Free cash flow[3]
£13.8m
2015: £5.1m
+171%

Underlying EPS[1]
12.0p
2015: 8.8p
+19%[2]

Underlying operating profit[1]
£31.3m
2015: £21.7m
+26%[2]

EPS
10.3p
2015: 6.5p
+31%[2]

Operating profit
£27.6m
2015: £16.3m
+42%[2]

Net Debt
£(55.4)m
2015: £(56.1)m
+1%

Dividend[4]
5.6p
2015: 5.5p
+2%

Good strategic progress and strong financial performance

- Continued customer focus driving new contract wins; strong sales performance in Asia
- Operational efficiency improvements supporting excellent profit growth
- Aero Stanrew continues to perform well and successfully integrated
- Entering 2017 with good momentum and a robust order book

Financial headlines

- Robust organic revenue performance, returned to organic revenue growth in H2
- Underlying operating profit up 26%, underlying EPS up by 19% at constant currency
- Good underlying cash conversion at 87%, further enhanced by £12.3 million from sale of properties
- Return on invested capital improving, up 130bps
- Increase in dividend reflects progress in 2016 and confidence in 2017

(1) Underlying change before restructuring, acquisition cost and asset impairment
(2) Change at constant currency
(3) Net cash flow from operating activities less net cash flow from investing activities less interest paid
(4) Interim dividend combined with final proposed dividend

Our year in review

£22.6m

Cash spent on R&D

Focused on products in structural growth markets to drive TT's growth for the future.

Contract win

For a longstanding American computer hardware, software and electronics customer. TT will provide an integrated high precision optical sensor and circuit board assembly used in ATMs for detecting currency, cheques, and deposit envelopes.

Read more – page 35

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New products launched in 2016

Including an automotive actuator for the next generation haptic accelerator pedal, lighter and more power efficient than existing systems, putting our customers ahead.

New product launched:

mag-Net® – a magnetic connector for wearable electronic soldier systems showcased at the Association of United States Army (AUSA) conference alongside our partner, a multinational defence, security and aerospace company.

Read more – page 36

Over 20

Master Lean Practitioners

Demonstrating increased focus on our operational efficiency with BE Lean initiatives at all our sites.

TT's components on the NASA Mars Rover
Won a contract to supply 300 Hall effect opto-sensors for the NASA Mars Rover 2020.

£46,817

Raised by TT for charities globally
Supporting our local communities and charities close to our employees.

Read more – page 39

30+

Customers served in Asia
Including growing business with customers in automotive and rail, supporting growth in the region.

1st

Major Transportation Sensing and Control customer win in the US
With a development order to provide chassis height sensors, using SIMPSpad technology for one of the big three US automotive OEMs.

Inspiring young engineers
Support for apprenticeship schemes and STEM in education.

Read more – page 39

Aero Stanrew integration complete
Following the acquisition in December 2015, we have won our first contract as a combined business with a global engine manufacturer.

Read more – page 36

7 suppliers

Operational focus on procurement across the business
With logistic and freight providers reduced from 42 to 7 suppliers.

Read more about what we did in 2016 on our "One TT" website www.ttelectronics.com

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(1) Inside Front Cover
(2) Pull-Out

More online
www.ttelectronics.com

What we do

TT is a global provider of engineered electronics for performance critical applications. We have years of experience and expertise in engineering; we deliver electronics for application in the harshest environments.

The markets we serve

Transportation

Exhaust-after-treatment
Chassis
E-Mobility
Transmissions
Lighting / LED
Powertrain
Rail
Industrial

Industrial

Oil & gas
Power
Automation and manufacturing
Industrial machinery
Energy and utilities

Aerospace and defence

Commercial aircraft
Military aircraft
Marine
Land vehicles
Weapon systems
Space
Security
Soldier systems

Medical

Diagnostics and imaging
Laboratory
Direct patient care
Patient monitoring
Patient safety

Our business

Transportation Sensing and Control

The Transportation Sensing and Control division develops both sensors and control solutions for automotive OEMs and tier one suppliers including powertrain providers for passenger cars and trucks.

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Industrial Sensing and Control

Industrial Sensing and Control addresses challenging sensing requirements for precision, speed of response, reliability, or the physical environment the products operate in.

Read more – page 35

Advanced Components

Advanced Components creates specialist, high-performance, ultra-reliable, highly-engineered electronic components for circuit protection, power management, signal conditioning and connectivity applications in harsh environments.

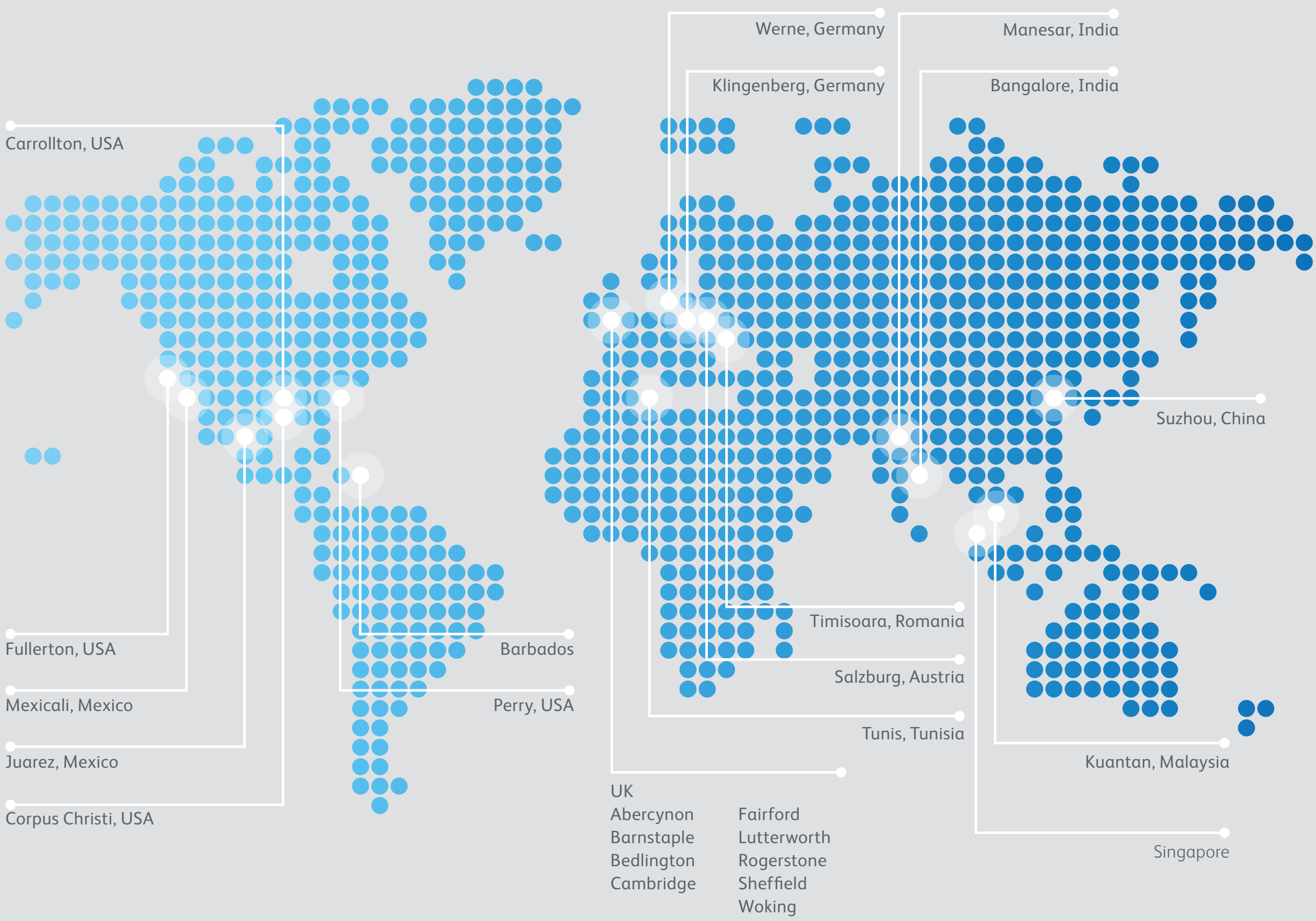
Read more – page 36

Integrated Manufacturing Services (IMS)

The Integrated Manufacturing Services division draws on its manufacturing design engineering capabilities, global facilities and world-class quality standards to provide highly complex electronic manufacturing solutions.

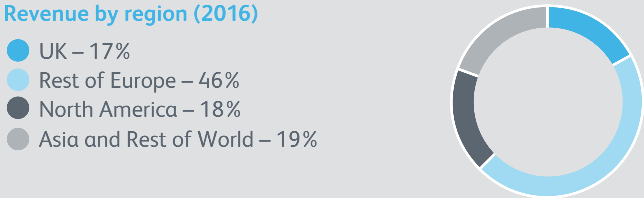
Read more – page 37

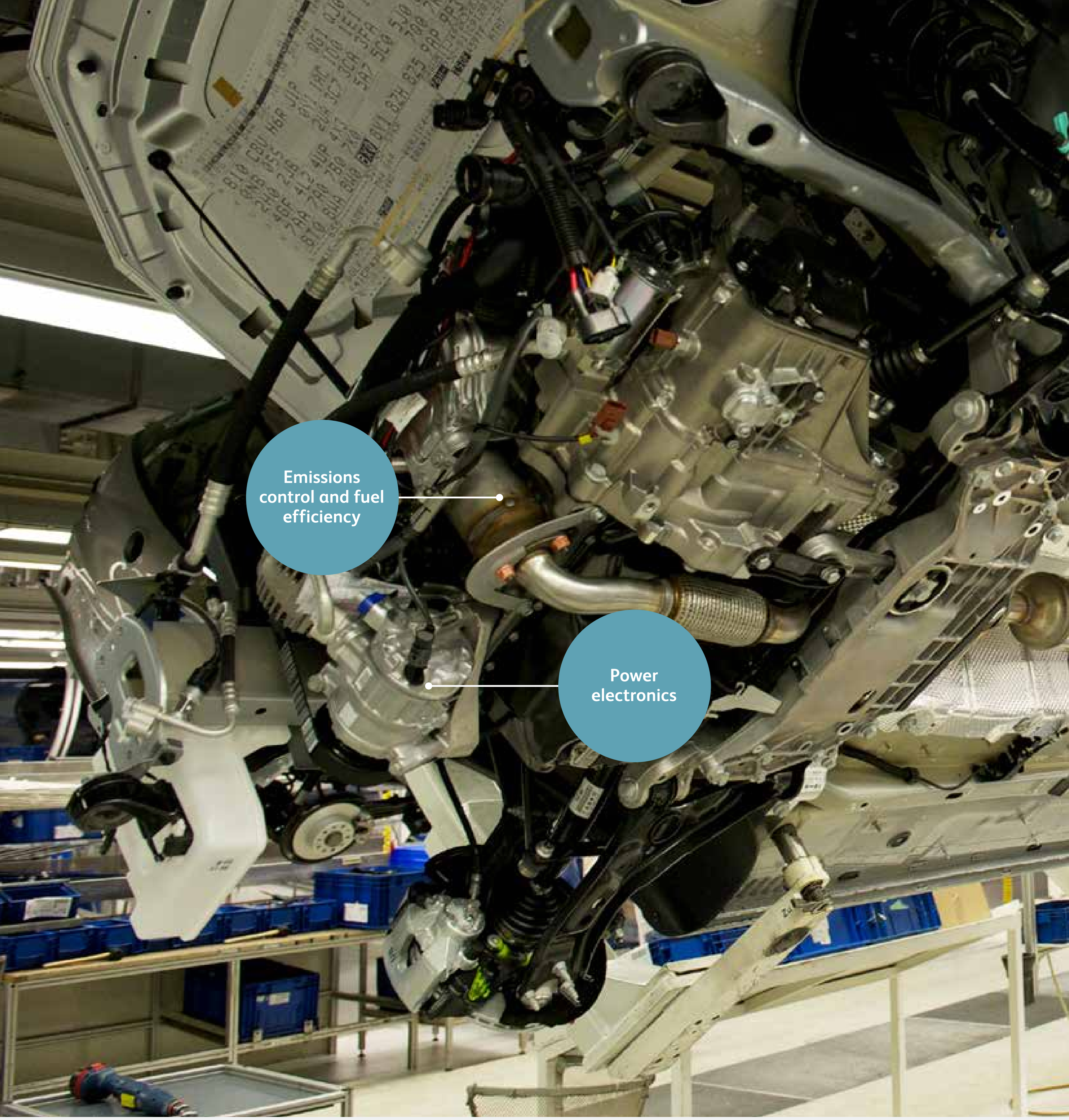
Where we do it
TT has a global manufacturing footprint to reach our markets and serve our customers effectively and efficiently.



Revenue by market (2016)

Revenue by region (2016)





Influencing the world around us
Transportation

We specialise in providing automotive technologies for the world's leading OEMs and tier one suppliers. Working alongside our customers, we deliver advanced electronic solutions for applications in emissions control, fuel efficiency, power electronics and driver safety.

What we do and where we are focused

We develop electrically engineered components for passenger car, rail, truck and off-road markets. We work alongside our customers to develop advanced sensor and control solutions for applications that focus on emissions control and fuel efficiency, safety and driver comfort.

Emissions control and fuel efficiency

With in-depth knowledge of global emissions regulations including EURO6c (2018) and US CAFE, we work with customers to apply our sensor and power electronics technology to the next generation of environmentally friendly and reliable exhaust system designs.

Power electronics

As electronic parts per vehicle increase, we are well placed to serve our customers with our expanding product portfolio. Our solutions include motor control modules, magnetic components and resistors which are used in multiple performance critical applications across both conventional and hybrid electric vehicles (HEVs).

Safety

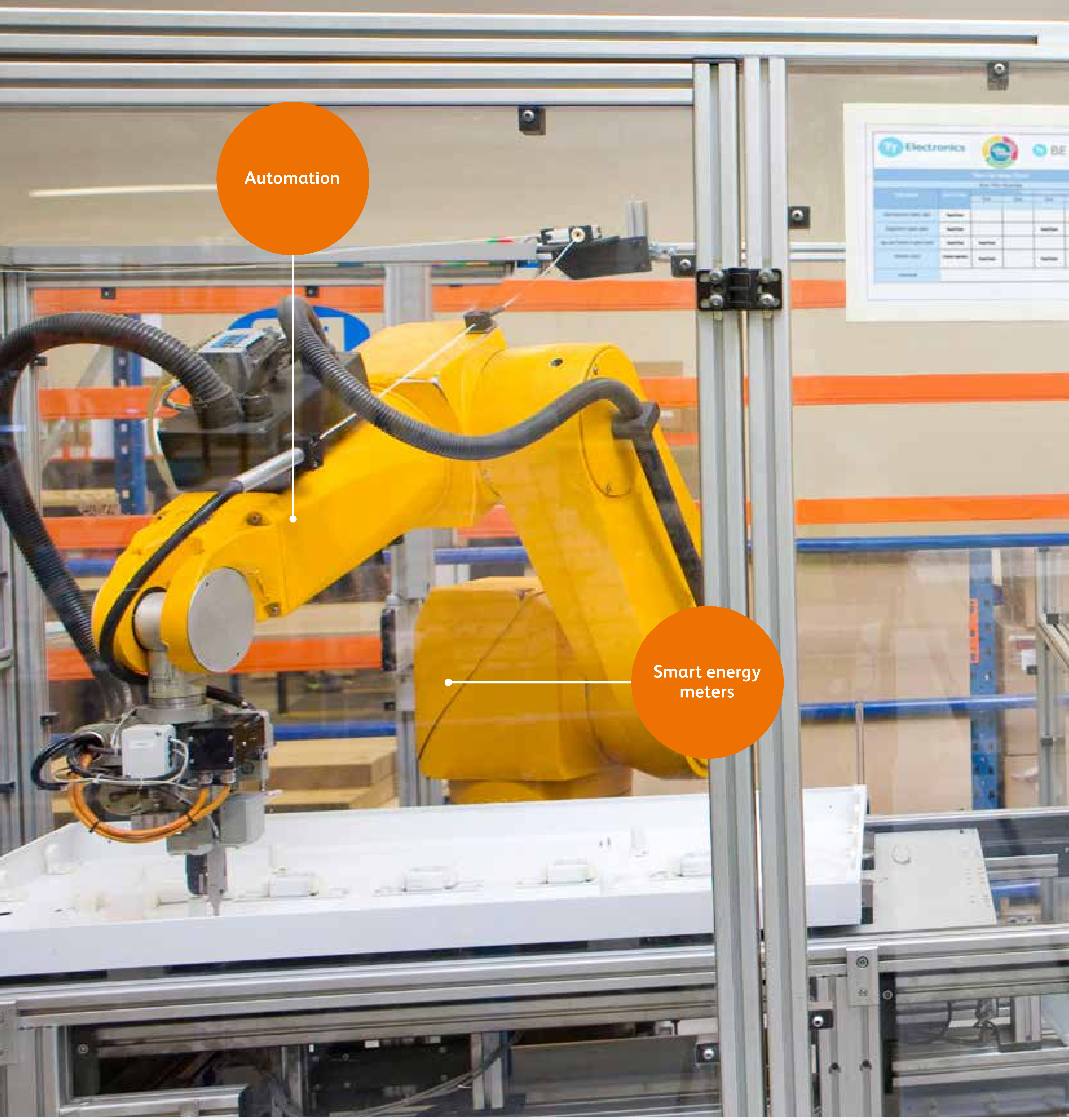
We work with the world's leading OEMs on applications where functional safety is a key requirement. Our sensors are designed with in-built diagnostic capabilities that can be used in position sensing and electric motor controls for HEVs.

How we make a difference

Our focused capabilities enable us to design and engineer solutions that will play a part in the next generation of automotive vehicles across HEV, electric vehicles (EVs) and autonomous vehicles.

Why our customers choose us

We specialise in providing automotive technologies for OEMs and tier one suppliers. Our long history of designing and engineering high-reliability solutions for the world's foremost automotive manufacturers makes us a trusted partner for meeting the demands of the ever evolving automotive industry.



Influencing the world around us
Industrial

Our customers rely on our diverse product portfolio to support their most challenging applications. We help them to future-proof their manufacturing using our industry expertise and focused Research and Development (R&D) to improve productivity, connectivity, reliability and precision.

What we do and where we are focused

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

Automation

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

Smart energy meters

We design and manufacture resistors for smart meter technology. Our surge proof resistors are designed-in to protection circuits with the major smart meter manufacturers in Europe and the USA.

Instrumentation

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

How we make a difference

We focus on our core technologies for position, temperature and flow sensors which improve productivity, connectivity, reliability and precision for our customers.

Why our customers choose us

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

Influencing the world around us
Aerospace and defence

We offer high-reliability aerospace and defence technologies for safety-critical applications used in harsh environments. Our experience and expertise in design and manufacturing has led us to build long-term partnerships with our customers and they trust us to address their most complex challenges.

What we do and where we are focused

We offer high-reliability aerospace and defence technologies and are often "sole sourced" on programmes. Our safety-critical applications are deployed on civil and military aircraft, and in space.

Fuel systems

We supply into fuel distribution and fuel management systems, from components to assemblies, providing high reliability solutions that help reduce the consumption of scarce power. Our solutions support our customers' requirements for increased fuel efficiency, helping the cost effectiveness of airlines and supporting greener air travel.

Engine controls

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

Cockpit avionics

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

How we make a difference

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

Why our customers choose us

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

Influencing the world around us
Medical

We work with the world's leading medical equipment developers and manufacturers. Our customers rely on our experience in high-precision and high-reliability applications for their life-critical medical devices and equipment.

What we do and where we are focused

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

In-home care

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

Diagnostic equipment

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

Life-critical devices

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

How we make a difference

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

Why our customers choose us

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

Neil Carson
Chairman

2016 has been a successful year for TT. In challenging markets, we have delivered a performance ahead of expectations.

Strategic development

2016 has been a year of significant strategic progress with traction made against our clear strategy to return the business to sustainable, profitable growth. I have been delighted to see TT's progress; deploying engineering expertise in markets where we have a competitive advantage and where there is increasing electronic content. Our sales approach has increasingly developed as "One TT" with a number of new and existing customer wins throughout the year (see pages 34–37 for more details). Aero Stanrew, acquired in December 2015, was successfully integrated quicker than expected; the business is performing well and notably we secured the first contract win as a result of the integration of Aero Stanrew and TT, working together as a unified team. The Board is pleased to see that our strategic progress has now started to be reflected in our strong financial performance. We believe our strategy is the right one, and will drive growth and value for our shareholders.

The Board has discussed our approach for advancing the growth strategy for TT, which will see us continue to build on our core capabilities; developing highly engineered electronic components and assemblies for harsh, often regulated environments. Our focus is in market areas where there are structural growth drivers. We have positioned ourselves to benefit from increasing electronic content in markets such as aircraft, cars, trains, trucks, motorbikes, power and energy, industrial and medical equipment and in oil and gas.

Board changes

In 2016 we welcomed two new independent non-executive Directors, Jack Boyer OBE and Alison Wood in June and July respectively, further strengthening the Board's strategic insight. These appointments follow John Shakeshaft's retirement from the Board and the appointment of Stephen King as our senior independent non-executive Director. I would like to thank John for his service to the Company over nine years.

I am confident that the skills and experience we have added to the Board have given us the right composition to support the acceleration of the strategy at TT.

"2016 has been a year of significant strategic progress with traction made against our clear strategy to return the business to sustainable, profitable growth."

Neil Carson
Chairman

Our people

The momentum that has been built in the business would not be possible without the hard work and commitment of our people across TT's global operations. I am pleased to see our employees working together to develop, own and execute our growth plans and self-help actions. We have made good progress improving our R&D focus, our operational efficiency and procurement operations and continue to manage and prioritise health and safety. On behalf of the Board, I would like to thank all of our employees who have worked as "One TT" and contributed to our successful business performance during 2016.

Shareholder returns and dividend

Despite the challenging market conditions in some of our markets, we have delivered good reported and underlying profit growth, maintained an excellent cash performance and made good progress with our strategy. The business is now well placed to benefit from the substantial demand coming from the drive for increased efficiency, accuracy and reliability of electronic components.

Given TT's financial performance, strategic progress and growth prospects for the business, the Board is recommending increasing the final dividend to 3.9 pence per share. This, when combined with the interim dividend of 1.7 pence per share, gives increased total dividend of 5.6 pence per share for the full year (2015: 5.5 pence per share).

Looking forward

We have built good momentum executing on our strategy and have started to see the benefits in our strong financial results. In challenging markets, we have delivered a performance ahead of expectations. Our cash performance has remained excellent. The Board is confident of further progress in 2017.

Neil Carson
Chairman
8 March 2017

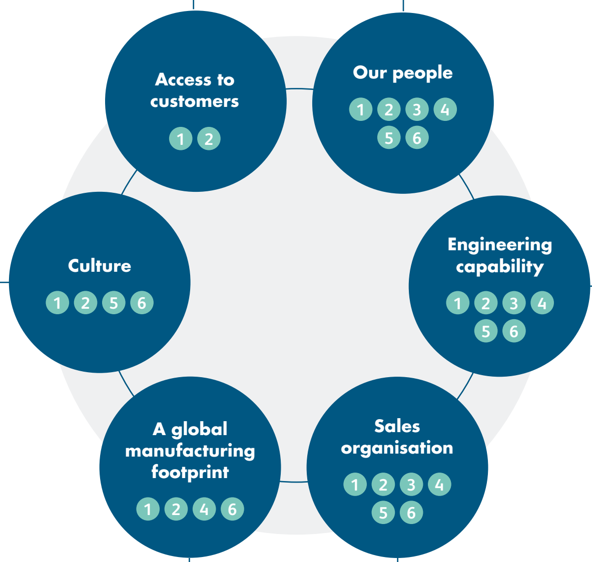
Leveraging our attributes and unlocking their potential

We leverage our attributes by training and supporting our people, enhancing our culture, bolstering our brand, making the most of our global manufacturing footprint and providing a clear focus for our teams in sales, R&D and operations.

We are building the TT Electronics brand; we want our customers to be proud to work with us. We have built credibility with our customers over many years and strive to continue to resolve our customers' most complex challenges.

Our people are hugely experienced, often with leading expertise in their field. We champion a lean, agile and learning organisation, promoting the "TT Way of Learning", apprenticeship schemes and working towards "BE TT".

We work together in the "TT Way", the culture we aspire to, ensuring we behave in the right manner (see page 38 for more detail).



We focus our resources on ensuring we fulfil the potential of our existing technology and R&D capability. We have increased investment and have a clear set of product and market priorities.

We optimise our global footprint to access our markets effectively and efficiently. We focus on continued operational improvement through our "BE Lean" programme and supply chain actions.

We have developed our sales organisation by promoting collaboration across divisions, functions and regions. We maintain a flexible approach so we can respond to changing customer and market dynamics.

1-6 Link to our strategic priorities
(See facing page)

Maximising value through our strategy

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

Our strategy is to:

- Position ourselves in structural growth markets where there is increasing electronic content;
- Target areas of the market where there is less competitive intensity, or where we can differentiate ourselves using our industry expertise and focused R&D investment, to develop engineered electronic solutions for our customers' most complex challenges;
- Ensure our business is sustainable in the long term; and,
- Deliver growth and value for our shareholders.

Our strategy is aligned to our six strategic priorities, to improve customer and operational performance while improving returns and cash generation.

1. Market leading position
2. Enhanced customer focus
3. Targeted and efficient R&D spend
4. Operational efficiency
5. A lean, agile and learning organisation
6. Financial discipline and performance management

Our strategic progress during 2016 – pages 16–21

How our strategic priorities are reflected in our KPIs – pages 22–23

How our strategic priorities relate to our key risks – pages 26–27

Winning in end markets where we are well positioned

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

End markets

Transportation
Page 4

Industrial
Page 6

Aerospace and defence
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Medical
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Divisions

Transportation Sensing and Control
Page 34

Industrial Sensing and Control
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Advanced Components
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Integrated Manufacturing Services (IMS)
Page 37

Creating sustainable value for our stakeholders

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

Shareholders
Please see the Chairman's statement on page 12 for more information.

Employees
Please see the Corporate responsibility section on page 38 for more information.

Customers
Please see the Divisional reviews on pages 34–37 for more information.

Communities
Please see the Corporate responsibility section on page 38 for more information.

Chief Executive's strategic review

Richard Tyson
Chief Executive Officer

Progress ahead of expectations

We are pleased with the strong strategic and financial performance of the Group. 2016 trading was ahead of expectations. We created a clear, realistic and straightforward strategy for TT, to position ourselves in structural growth markets where there is increasing electronic content, and this strategy continues to gain traction. We have been active in deploying our engineering expertise and investment in market areas where we see good structural growth drivers, where there is increasing electronic content, and where we can drive growth and value for our shareholders.

Strategic progress

We have achieved a significant amount in 2016:

- **We have turned around the Transportation Sensing and Control division.** We have returned the division to profitable growth by positioning the business around structural growth drivers including safety, emissons and power electronics.
- **We have repositioned and invested in Industrial Sensing and Control and Advanced Components and will continue to do so.** We have increased the cash spent on R&D in these divisions by 13 per cent compared to 2015.
- **We have increased the level of penetration within our key customers and opened up new channels of business.** We have strengthened strategic account management across the Group and increased sales in Asia by 12 per cent at constant currency.

2016 performance

In last year's annual report, we said that we were on track to make progress in 2016; we have achieved what we said we would. We have been focused with our resources and clear in our strategy; we are starting to see the benefits of the efforts we have made, achieving a strong financial performance.

Group revenue for 2016 was £569.9 million (2015: £509.9 million) an increase of 12 per cent and 3 per cent excluding the impact of foreign exchange (plus £43.0 million). As expected, revenue was flat on an organic basis (excluding the impact of exchange rates, acquisitions and disposals). Aero Stanrew contributed revenues of £18.3 million. Our sales performance has been good, particularly in Asia, delivering a robust performance in markets that remained challenging throughout the year. The Group's order book is encouraging and is slightly ahead compared to the same time last year.

"We are pleased with the strong strategic and financial performance of the Group. 2016 trading was ahead of expectations."

Richard Tyson
Chief Executive Officer

Underlying operating profit increased by 44 per cent to £31.3 million (2015: £21.7 million) driven by the turnaround in Transportation Sensing and Control and the contribution from the Aero Stanrew acquisition. Excluding the positive foreign exchange movement of £3.2 million, underlying operating profit increased by 26 per cent, with £3.4 million contributed from Aero Stanrew and £3.0 million coming from self-help actions and underlying business performance. Underlying operating profit margin for the Group has improved by 120 basis points and return on invested capital is now 10.3 per cent (2015: 9.0 per cent).

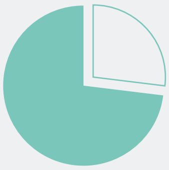
Cash generation improved in the second half of the year as expected, and we delivered full year cash conversion of 87 per cent (2015: 136 per cent) and a free cash inflow of £13.8 million (2015: £5.1 million), an increase of 171 per cent. Continued strong cash performance was enhanced by £12.3 million of proceeds received from the sale of surplus sites in Weybridge, Fullerton and a site in Werne.

Closing net debt was £55.4 million (2015: £56.1 million). Net debt to EBITDA was 1.0 times (2015: 1.3 times).

Progress in our divisions

The Transportation Sensing and Control (TS&C) division has performed strongly, making a step change in performance returning the division to profitable growth faster than expected. Revenue for the division was £237.2 million (2015: £205.8 million) up by 15 per cent. The division returned to profit with underlying operating profit of £3.2 million (2015: £(1.4) million), an increase of £4.0 million at constant currency. We have seen good growth in China, with five new customers won during the year for position sensors in chassis applications in addition to further revenue growth with a number of existing customers. We have positioned TS&C in the right areas of the automotive market to benefit from increasing electrification, additional sensors on cars, and the market trend towards electric, hybrid electric and autonomous vehicles. See more on page 34.

Our markets



27%
of all light vehicles globally were manufactured in China in 2015

Introduction

We focus our strategy on four end markets where there are structural growth drivers: transportation, industrial, aerospace and defence and medical. TT is well positioned in these markets, with longstanding customer relationships and proven expertise to put our customers ahead. We excel when we deploy our engineering expertise to develop highly engineered components and assemblies for harsh, often regulated environments, helping our customers' solve their most complex challenges.

Across our end markets there are varying growth dynamics. Intermediate sub-systems for a range of our industries are forecast to grow at a solid 2.1 per cent CAGR from 2015 to 2019, reaching USD$1.61 billion. As the world becomes ever more interconnected and "digitised", the level of automation and intelligence in and across devices is proliferating in virtually all spheres of industry, business, infrastructure and our homes with increasing pace. Within our industries, we are focused on areas of the market where we anticipate structural growth drivers that will ensure the long-term sustainability of the business.

Transportation

Electronics for the transportation industry is a core market for TT, accounting for 48 per cent of revenues. Macroeconomic drivers such as urbanisation, rising disposable income and growth in car ownership in emerging economies combined with innovation-driven replacement in mature markets is creating a positive environment for the transportation industry including car and rail. We are seeing market growth from increasing electronic content in rail, truck and passenger-car vehicles.

The global automotive electronics market is a large and competitive, projected to be worth around USD$300 billion in 2020. The Chinese car market particularly is experiencing strong growth. In 2015, 27 per cent of all light vehicles globally were manufactured in China. TT has seen good growth in China, engineering solutions increasingly for the growing local market. Deployment of in-vehicle electronics is increasing to make cars safer, cleaner and more comfortable through connectivity and built-in "intelligence". Highly reliable sensors are needed to enable assisted and autonomous driving functionality. This is where TT excels. Read more about where we are focused on page 4.

The Industrial Sensing and Control (IS&C) division maintained strong profitability despite the decline in revenues and an increase in R&D expense to support future growth. Revenue for the division was £64.4 million (2015: £61.0 million), up by 6 per cent. Underlying operating profit was £11.9 million (2015: 11.4 million) up by 4 per cent. Operating profit margin was 18.5 per cent (2015: 18.7 per cent). During the year, IS&C launched a number of new products to support future growth, including a component that transfers electrical signals between two isolated circuits using light, supporting satellites and spacecraft. Our continued R&D efforts will provide our customers with high precision, high reliability components for industrial, medical and transportation markets. See more on page 35.

Advance Components revenues increased by 27 per cent to £121.3 million (2015: £95.3 million). There was a positive contribution from Aero Stanrew which is performing well, growing revenues by 5 per cent (2016: £18.3 million, 2015: £17.4 million). There was an improvement in underlying operating profit to £10.3 million (2015: £6.0 million). Aero Stanrew contributed underlying operating profit of £3.4 million (2015: £2.8 million). Operating margins increased by 220 basis points to 8.5 per cent (2015: 6.3 per cent), reflecting the incorporation of the higher margin Aero Stanrew business. Advanced Components released 11 new products during the year, further enhancing our position as a global leader in circuit protection, detection and power management across aerospace and defence, transportation, industrial and power and energy markets. See more on page 36.

IMS performed well, maintaining good margins on reduced volumes due to challenging North American industrial markets. Revenue was down 1 per cent at £147.0 million (2015: £147.8 million). Underlying operating profit was up 4 per cent to £5.9 million (2015: £5.7 million). During the year, we won a number of new customers in Asia in addition to expanding existing customer relationships. Sales in Asia increased by 17 per cent at constant currency. In particular, we have seen strong growth in the Chinese rail market. We have started to win new customers across Asia Pacific as a result of focused sales efforts to meet growing regional demand in markets such as aerospace and defence, medical, industrial and transportation where we are responding to the demand for increased electronic content. See more on page 37.

Continued customer focus

Increasingly going to market as a unified business has helped unlock potential customer opportunities, including a new opportunity we won with an existing consumer electrical equipment supplier, increasing sales with the customer by over 50 per cent in the last two years. As a result of a collaborative "One TT" sales effort, we secured a new contract with a global engine manufacturer, already an Aero Stanrew customer, for Application-specific Integrated Circuit (ASIC) solutions from our clean room in Bedlington.

We continue to strengthen our capabilities in markets that are strategically important due to their size or high growth rates. This includes Asia, where Group revenue has increased 12 per cent at constant currency, and in the US, where we won an important development order with a large automotive OEM.

Prioritised R&D investment

We now have an established R&D management framework with a gated approval process and clear prioritisations for efficient R&D spend in alignment with our strategy. During the year, we spent £22.6 million on our focused R&D efforts. We are creating a culture of collaboration for innovative thinking and supporting the investment in R&D initiatives that will help drive growth for TT in the future. During the year, we launched 29 new products as a result of our R&D capabilities, an increase from the number of products launched in 2015.

As part of our leading-edge product development, we have designed a new connector, mag-Net® which forms part of a soldier system for the digital battlefield enabling communication for the connected solider. mag-Net® was launched at the Association of the US Army (AUSA) annual conference, where initial feedback was encouraging.

Operational efficiency actions

Lean initiatives have been a continued focus across the Group with four lean projects undertaken throughout the year. We have trained a community of Master Lean Practitioners (MLPs) who are in turn training colleagues in lean methodologies across our sites and functions. We have run a number of "BE Lean" projects across the business. On production lines where we have focused our efforts, we have seen significant improvements, including an example where stock turns improved by more than 30 per cent. Across all pilots, lead times were cut by between 40 and 60 per cent.

Our markets continued

Global market for electrical on-aircraft systems is currently estimated at

£10.4 billion

Industrial

The industrial market is a diverse market covering manufacturing, energy and utilities, power and oil and gas with a large degree of regional variation. Industrial accounts for 27 per cent of our revenues. The market is benefiting from growth associated with an increase in electronics that are future-proofing next generation technology including "smarter homes", "factory 4.0" and higher specification consumer products.

The industrial automation solutions (including equipment, components and services) market is projected to grow at a 7.1 per cent CAGR to reach US$ 283.2 billion by 2018. Industrial machines and robotics are capable of handling input materials, work-in-progress goods and finished products with increasing precision, speed and flexibility with market demand growing for even more dextrous capabilities to adjust to situational variations. This requires sensors and controls to be ever more precise, as well as interconnected, capabilities that we have at TT. Read more about where we are focused on page 6.

Aerospace and defence

Aerospace and defence accounts for 13 per cent of TT's revenues. We are seeing market growth from "the more electric aircraft" alongside demand for electrical components with reduced size, weight and power consumption. This trend is gaining momentum as hydraulic systems are replaced or backed up with electrically-powered equivalents. Power and sensing electronics are playing a key part in enabling progress in the value chains of key applications including engine management, flight-surface actuation, landing gear actuation and flight control avionics.

The global market for electrical on-aircraft systems was estimated to be £10.4 billion in 2014, forecast to grow to £13.7 billion by 2020, a CAGR of 4.6 per cent.

Growth in key segments of aircraft electronics, such as avionics systems, aircraft fuel management systems and flight management systems, for all of which TT engineer components, is between 5 per cent and 7 per cent per year over the next five years. Read more about where we are focused on page 8.

Medical

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

The medical electronics market is estimated to grow at a CAGR of 5.4 per cent between 2016 and 2022, reaching USD$4.41 billion. Driving factors include the growing elderly population, the rise of increasingly unhealthy lifestyles, and technological developments including the portability of equipment. An aging population combined with a growing focus from the general public and private organisations towards public access for defibrillation equipment is driving growth ahead of the wider medical electronics market at a CAGR of 7.3 per cent from 2016 to 2021. Read more about where we are focused on page 10.

Sources: Custer Consulting Group 06-2016, IC Insights 12-2015, ZVEI, 2015, PwC Autofacts, Q2/2016 release, IndustryARC, 2015-08, MarketsandMarkets

We have taken sensible steps to improve our procurement practices, including focusing on our freight and logistics supply chain. Reducing the number of suppliers has improved the simplicity of our operations and created savings. For air and sea freight, our actions have seen savings of over 40 per cent.

Focus on our people, culture and engagement

During 2016, we have refocused our efforts on our talent management framework, integrating the various HR elements and upgrading the supporting technology. We have rolled out the "TT Way of Management" which sets out our best practice management approach aligned to our "TT Way" behaviours. We launched a new global induction programme, bringing consistency to the way we introduce new joiners to our strategic priorities and who we are. We continue to promote apprentice schemes throughout the organisation, championing young talent and nurturing our leading experts of the future. Our progress is demonstrated by our employee engagement score of 4.59 which shows an improvement compared with the previous year (2015: 4.54) (see page 23).

Safety is of paramount importance to us and we have seen clear progress in our zero harm measures which have gained momentum. Our employees continue to manage and prioritise health and safety and I was particularly pleased to see a 55 per cent improvement in safety performance over the year (see page 23).

Successful integration of Aero Stanrew

Aero Stanrew was acquired in December 2015. In our first full year of ownership the business has been successfully integrated, has performed well, achieved strong order growth, and is on track to deliver return on invested capital in excess of our cost of capital this year. The business is performing well, growing revenues by 5 per cent (2016: £18.3 million, 2015: £17.4 million), with underlying operating profit of £3.4 million (2015: £2.8 million). During the year, we won our first contract as a result of the integration of Aero Stanrew and TT. We continue to explore inorganic opportunities to accelerate growth in attractive markets where we can leverage our expertise to expand market presence and enhance our offerings to customers.

Our strategy

We have built traction and advanced our strategy throughout the year. We will look to continue this momentum in 2017. Our strategy is to:

- position ourselves in structural growth markets where there is increasing electronic content;
- target areas of the market where we have a competitive advantage, or where we can differentiate ourselves using our industry expertise and focused R&D investment, to develop engineered electronic solutions for our customers' most complex challenges;
- ensure our business is sustainable in the long term; and,
- deliver growth and value for our shareholders.

Outlook

We are pleased with the strong financial performance achieved in 2016, ahead of expectations. This has resulted in improved growth and profitability for the Group, and our free cash flow performance has been excellent.

We have a clear and realistic strategy for TT to focus on structural growth markets where there is increasing electronic content. We continue to deploy our engineering expertise and investment in areas where we see real opportunities for growth. Despite uncertain end-markets, we enter the year with good momentum in operational efficiency improvement and a robust order book, giving us confidence of making further progress in 2017.

Richard Tyson
Chief Executive Officer
8 March 2017

Financial

Organic revenue growth
(%)

0%

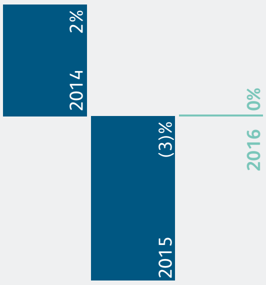
2015: (-3)%

Link to strategic priorities: 1 2 3 4 5 6

Description: Organic revenue growth is the percentage change in revenue from continuing Group operations in the current year from the prior year. The effects of currency movements, divestments and acquisitions made during the current or prior financial year have been removed.

Relevance: Our organic revenue growth measures the underlying growth of the business and is an indicator of our ability over the longer term to position ourselves in structural growth markets.

Performance: A good sales performance, particularly in Asia, has delivered a robust performance in markets that remained challenging throughout the year.



Underlying earnings per share (EPS)
(p)

12.0p

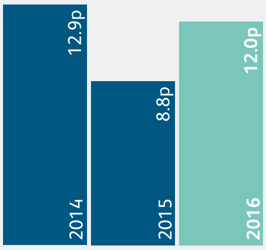
2015: 8.8p
(+19%) (constant currency)

Link to strategic priorities: 1 2 3 4 5 6

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

Relevance: This KPI is a relevant metric to determine corporate profitability for shareholders. Underlying EPS is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan. See more on page 78.

Performance: Underlying EPS has increased by 19 per cent, driven by improvement in underlying operating profit and business performance in the Group.



Cash conversion
(%)

87%

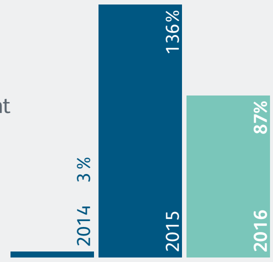
2015: 136%

Link to strategic priorities: 3 4 6

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

Relevance: Cash conversion measures how effectively we convert profit into cash and tracks the management of our working capital and capital expenditure.

Performance: Our continued focus on cash generation has resulted in another strong year of cash conversion.



Return on invested capital
(%)

10.3%

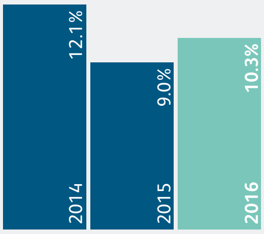
2015: 9.0%

Link to strategic priorities: 1 2 3 4 5 6

Description: Return on invested capital is defined as underlying operating profit for the year divided by monthly average invested capital for the year. Average invested capital excludes provisions, tax balances and financial assets and liabilities, including cash and borrowings.

Relevance: This KPI measures how efficiently assets are utilised to generate returns with the target of exceeding the cost to hold the assets.

Performance: Return on invested capital has improved by 130 basis points as we continue to utilise our assets effectively.



Non-Financial

Safety performance
(No. of incidents)

13

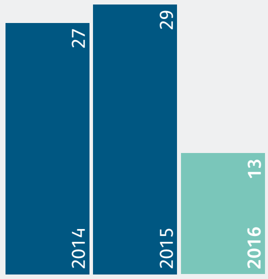
2015: 29 (-55%)

Description: Safety performance is quantified as the number of occupational injuries resulting in three or more days' absence.

Relevance: This KPI allows us to compare our performance with that of our peers. We use a UK benchmark published by the Health and Safety Executive and apply this to all of our facilities worldwide, reflecting our commitment to raising standards globally.

Performance: We have dramatically improved safety performance by reducing accidents by 55 per cent. This strong performance reflects our continued focus on building a safety culture at each of our sites.

Link to strategic priorities: 4 5



Engagement score

4.59

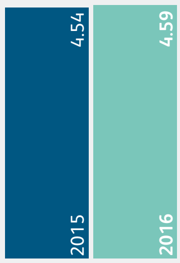
2015: 4.54 (+1%)

Description: We use our employee survey to measure how our employees feel about working in TT using a scale of one (low) to seven (high) against eight factors (as surveyed by Best Companies Ltd).

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

Performance: Engagement across the Group has improved as we continue to focus on "BE TT", our aspired to culture, and the "TT Way" behaviours (see more on page 38). An employee survey was not performed in 2014.

Link to strategic priorities: 5



R&D spend
(% of sales)

4.0%

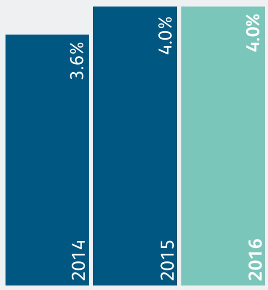
2015: 4.0%

Description: R&D spend is defined as the income statement charge for research and development activities expressed as a percentage of revenue. The charge is after accounting for R&D costs capitalised and amortised in the year.

Relevance: This KPI is an indicator of operational performance as we continue to invest in R&D to generate future products and capabilities.

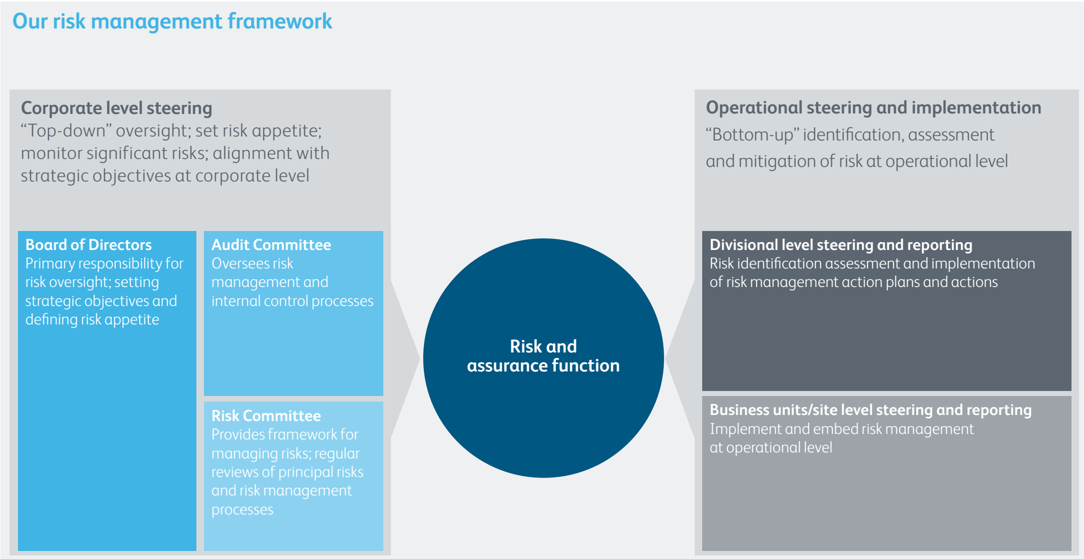
Performance: We have increased the amount we have spent on focused R&D to drive growth for the future.

Link to strategic priorities: 1 2 3 4 5 6



1 **Market leading position**
2 **Enhanced customer focus**
3 **Targeted and efficient R&D spend**
4 **Operational efficiency**
5 **A lean, agile and learning organisation**
6 **Financial discipline and performance management**

Enhanced risk management underpins the successful delivery of our strategy.



Risk management

The Board of Directors is responsible for risk management and internal controls, supported by the Audit Committee and informed by the executive Risk Committee. The Board defines risk appetite and monitors the management of significant risks to ensure that the nature and extent of significant risks taken by the Company are aligned with overall goals and strategic objectives. The Risk Committee supports the Board and the Audit Committee in monitoring the exposure through regular reviews, including reviewing the effectiveness of risk management processes and controls. The Internal Audit function is operated under a directed outsource arrangement to enhance the levels of resource and expertise available to the Group in specific areas, with its activities under the direction of the Executive team. The Internal Audit function assists the Risk Committee by advising management on improvements to the overall risk management framework, facilitating the risk review process and providing independent experience and input to the process.

Risk management processes and internal control procedures are established within business practices across all levels of the organisation. Risk identification, assessment and mitigation are performed both "bottom up" with more detailed assessment at operational level, as well as through "top down" assessment of strategic and market risk at the executive management and Board level.

Risk management and internal controls provide reasonable but not absolute protection against risk. The Board acknowledges and recognises that in the normal course of business the Group is exposed to risk and that it is willing to accept a level of risk in managing the business to achieve its strategic priorities. Risk appetite is not static and as part of its risk management processes, the Board regularly considers its risk appetite in terms of the tolerance it is willing to accept in relation to each principal risk based on key risk indicators to ensure it continues to be aligned with the Group's goals and strategy.

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the period to December 2019, taking into account the Group's current position and the potential impact of the principal risks and uncertainties set out on pages 26 and 27 of the Strategic report. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2019.

The Directors have determined that the period to December 2019 represents an appropriate period over which to provide the viability statement as this aligns with the business cycle including product development and order intake trends.

Whilst the Directors have no reason to believe the Group will not be viable over a longer period, given the inherent uncertainty involved, the Directors believe that this presents investors and other key stakeholders with a reasonable degree of confidence while still providing a longer-term perspective.

In making this statement, the Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, the underlying mitigation planning, the assessment of future performance, solvency and liquidity, and the Group's internal controls environment.

In making the assessment of the Group's viability, the Directors have stress tested the Group's financial projections for the period covered by the viability statement, testing it for "business as usual" risks (such as profit growth and working capital variances), and severe but plausible events (occurring both individually and in unison), as well as a "reverse" stress-test to understand the conditions which could jeopardise the future viability of the Group including assessing against covenant testing and facility headroom. The Group's wide geographical and sector diversification helps minimise the risk of serious business interruption or catastrophic reputational damage. Furthermore, the business model is structured so that the Group is not overly reliant on any single customer, market or geography.

Whilst this review does not consider all of the risks that the Group may face, the Directors consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

Risk profile

The Board has performed a robust assessment of the principal risks facing the Group, taking into account those that would threaten our business model, future performance, solvency or liquidity, as well as the Group's strategic objectives. All principal risks identified by the Board may have an impact on our strategic objectives within the next six to twelve months. Executive management, the Risk Committee and the Board of Directors performed further analysis to prioritise these risks, with a focus on those principal elements posing the highest current risk to the achievement of the Company's objectives or the ongoing viability of the business.

Risks assessed as higher priority are consolidated onto a Group Risk Register. Risks included on the register are monitored more closely by the Group, recognising that whilst these "top risks" represent a significant proportion of the Group's risk profile, executive management and the Risk Committee continue to monitor the entire universe of potential risks to identify new or emerging threats as well as changes in risk exposure.

The assessment of principal risks during the year has identified that these risks have remained relatively stable in the year. This is reflected in the table of principal risks. Whilst there is an acknowledged increase in geopolitical risk during 2016, the Group continues to take appropriate mitigating activities to address this. In addition, Executive Management and the Board do not currently anticipate any significant impact on the Group's trading following the UK referendum on Brexit.

Link to strategic priorities	Risk description	Potential impact	Mitigating action	Change in the year
	General			
1 6	General economic downturn Reduction in demand and orders	• Decelerating sales growth affecting operating profit	• Monitor the wider economic conditions of our geographical markets • Timely financial reporting to monitor performance and provide a basis for corrective action when required • Ongoing optimisation of our cost base	↑ Increased geopolitical and macro-economic uncertainty
	Commercial			
1 2 6	Contractual risks Potential liabilities from defects in performance-critical products that often operate in extreme environments	• Reputational impact • Deterioration in customer relationships • Liability claims • Reduction in revenues, profitability and cash generation	• Quality control procedures and systems in place and appropriate levels of insurance carried for key risk • Group guidelines on acceptable levels of contractual liability are reinforced	↔ No change
1 2 6	Pricing and margin pressures Potential price down in contracts	• Reduction in revenues, profitability and cash generation	• Good communications with customers to ensure understanding of their circumstances (eg design improvements)	↔ No change
2 3 6	Research and development Delay in new product development which is intended to support revenue growth	• Increased cost in product development • Delay in achieving projected revenues • Inability to meet the latest requirement due to step change in technology	• Close collaboration with key customers • Active monitoring of costs and milestones • Target R&D more effectively • Implementation of standard project management disciplines	↓ Improvements in gate process and project management disciplines

Link to strategic priorities	Risk description	Potential impact	Mitigating action	Change in the year
	Operational			
5	People and capability Ability to attract and retain high-quality and capable people	• Loss of key personnel • Potential business disruption • Breakdown of communication and misalignment	• Remuneration structure designed to support retention • Succession planning processes embedded within the businesses • Campaigns to increase performance and development of communication between managers and employees to ensure alignment to objectives • Develop feedback loop utilising surveys to encourage regular objectives and performance discussions	Increasing maturity of succession planning and performance management processes
1 2 4 6	Supplier resilience Potential failure of critical suppliers; product delivery delays; inability to meet customer commitments	• Reduction in revenues, profitability and cash generation	• Regular review of key supplier financial health and product quality • Monitoring of relevant commodity and precious metals pricing • Review of spend patterns to identify opportunities	No change
	Legal			
1 2 3 4	Legal and regulatory compliance Intentional or inadvertent non-compliance with legislation including laws and regulations covering export control, anti-bribery and competition	• Reputational impact • Civil or criminal liabilities leading to significant fines and penalties or restrictions being placed upon our ability to trade • Reduction in revenues, profitability and cash generation	• Cross-division export compliance group established and anti-bribery programme in place • Approach involves risk assessment, policy, training, review and monitoring • Whistleblower process in place to ensure issues can be raised, investigated and managed	No change

Mark Hoad
Chief Financial Officer

Financial headlines

- Robust organic revenue performance, returned to organic revenue growth in H2
- Underlying operating profit up 26%, underlying EPS up by 19% at constant currency
- Good underlying cash conversion at 87%, further enhanced by £12.3 million from sale of properties
- Return on invested capital improving, up 130bps
- Increase in final dividend reflects progress in 2016 and confidence in 2017

Introduction

Group revenue for 2016 was £569.9 million (2015: £509.9 million) an increase of 12 per cent and 3 per cent excluding the impact of foreign exchange (plus £43.0 million). As expected, revenue was flat on an organic basis (excluding the impact of exchange rates, acquisitions and disposals).

Results for the year ended 31 December 2016

	Underlying[1]				Statutory	
£million unless otherwise stated	2016	2015	Change	Change constant fx	2016	2015
Revenue	**569.9**	509.9	12%	3%	**569.9**	509.9
Operating profit	**31.3**	21.7	44%	26%	**27.6**	16.3
Profit/(loss) before tax	**26.9**	19.2	40%	20%	**23.2**	13.8
Earnings per share (pence)	**12.0p**	8.8p	36%	19%	**10.3p**	6.5p
Return on invested capital[2]	**10.3%**	9.0%	130bps			
Cash conversion[3]	**87%**	136%				
Free cash flow[4]					**13.8**	5.1
Net debt					**(55.4)**	(56.1)
Dividend per share (pence)[5]					**5.6p**	5.5p

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

"We achieved a strong financial performance in 2016. The momentum we have built in our strategy means that we are ahead of expectations."

Mark Hoad
Chief Financial Officer

Underlying operating profit increased by 44 per cent in absolute terms to £31.3 million (2015: £21.7 million) driven by the turnaround of Transportation Sensing and Control and the contribution from the Aero Stanrew acquisition. Operating margin for the Group has improved by 120 basis points and return on invested capital is now 10.3 per cent (2015: 9.0 per cent).

Please see the Chief Executive's strategic review on page 16 for more detail.

Non-underlying items

Reported operating profit was £27.6 million (2015: £16.3 million), up by 69 per cent driven by the turnaround of Transport Sensing and Control and the contribution from Aero Stanrew.

Non-underlying items are presented separately in the income statement where the Directors believe that they require separate disclosure by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Total restructuring costs, asset impairments and acquisition related costs amounted to £3.7 million (2015: £5.4 million). Included within this charge was a restructuring charge of £4.2 million (2015: £2.9 million charge) which related to the Operational Improvement Plan and other footprint change and a credit of £4.3 million arising on the disposal of surplus properties, in part linked to the footprint change projects. Acquisition related costs amounted to £3.8 million (2015: £0.8 million) and related mainly to the non-cash amortisation of acquisition intangibles, together with acquisition integration costs net of the release of a surplus disposal provision. The cash inflow in the year associated with these items was £1.5 million (2015: £10.1 million outflow).

Other Financial Matters

Exchange rates

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

	2016		2015		2014	
	Average	Closing	Average	Closing	Average	Closing
Euro	1.23	1.17	1.37	1.36	1.24	1.28
US$	1.36	1.24	1.53	1.47	1.65	1.56
Chinese RMB	9.02	8.59	9.60	9.57	10.19	9.67

Interest

There was a £1.9 million increase in the net interest expense to £4.4 million (2015: £2.5 million) primarily as a result of the increased debt associated with the Aero Stanrew acquisition. Interest cover of 14.8 times (2015: 20.0 times) remained comfortably above the covenant minimum level of 4.0 times.

Tax and earnings per share

The underlying effective tax rate was 27.9 per cent (2015: 27.0 per cent) and basic underlying earnings per share increased by 36 per cent to 12.0 pence (2015: 8.8 pence), and by 19 per cent at constant currency. The basic earnings per share was 10.3 pence (2015: 6.5 pence).

Dividends

The Board is recommending increasing the final dividend to 3.9 pence per share. This, when combined with the interim dividend of 1.7 pence per share, gives an increased total dividend of 5.6 pence per share for the full year (2015: 5.5 pence per share).

Pensions

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

Given the material nature of the UK scheme, the Group has developed a comprehensive strategy to manage the financial risk associated with it. The strategy consists of:

- maintaining a long-term working partnership with the Trustee to ensure strong governance of risks within the UK scheme. The UK scheme is a long-term undertaking and is managed accordingly, in order to provide security to members' benefits and value for money to the Group;
- a prudent investment strategy is pursued by seeking risk-rewarded long-term returns whilst removing the majority of liability mismatching unrewarded risks. As such, the Group has in place financial hedging that removes the majority of interest rate yield and inflation risk. This reduces the expected impact of a 10bps fall in yields from a circa £9 million increase in deficit down to a circa £2 million increase, thereby reducing volatility. This strategy has been in place for a number of years protecting the UK scheme's position since December 2013 when yields commenced a prolonged decline; and
- the Group recognises that seeking rewarded risk returns in its investment strategy could lead to short term fluctuations in funding levels depending on market conditions. The Group considers that by maintaining a good relationship with the Trustee, it will be able to utilise flexibility in the funding regime to even out the impact of short term market underperformance to enhance predictability of Group pension contributions. This creates a suitable balance between the needs of the UK scheme, the Group, and the Members.

The triennial valuation of the UK scheme as at April 2016 showed a deficit of £46.0 million against the Trustee's funding objective compared with £19.1 million at April 2013. The Company will continue with the previously agreed schedule of deficit contributions.

These planned contributions amount to £4.7 million, £4.9 million, £5.1 million and £3.9 million to be paid over the next four years.

In addition, the Company has set aside £3.0 million over the last three years to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme.

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

£million	2016	2015
Fair value of assets	**537.6**	435.0
Liabilities	**(539.8)**	(453.1)
Deficit – UK scheme	**(2.2)**	(18.1)
Overseas schemes	**(3.5)**	(3.0)
Total Group deficit	**(5.7)**	(21.1)

Financial risk management and treasury policies

The main financial risks of the Group relate to funding and liquidity, interest rate fluctuations and currency exposures. A central treasury department that operates according to objectives, policies and authorities approved by the Board, manages these risks. The overall policy objective is to use financial instruments to manage financial risks arising from the underlying business activities and therefore the Group does not undertake speculative transactions for which there is no underlying financial exposure. More details are set out in note 20 to the Consolidated Financial Statements.

Funding and liquidity

The Group's operations are funded through a combination of retained profits, equity and borrowings. Borrowings are generally raised at Group level from a group of relationship banks and then lent to operating subsidiaries. The Group maintains sufficient available committed borrowing facilities to meet any forecasted funding requirements. Net debt at the end of the year was £55.4 million (2015: net debt £56.1 million). In May 2016, the Group signed a new five year £150 million multi-currency revolving credit facility to replace the £75 million multi-currency and $60 million US dollar facilities which were due to expire in August 2016. The Group had available £65.2 million of undrawn committed borrowing facilities and £57.6 million of undrawn uncommitted borrowing facilities, representing overdraft lines (£27.6 million) and the accordion facility (£30.0 million).

The main financial covenants in the long-term bank facilities restrict net debt to below 3.0 times EBITDA before non-underlying items and EBITDA before non-underlying items is required to cover net finance charges by 4.0 times.

	Covenant	December 2016
Net debt/ underlying EBITDA	<3.00	1.00 times
Underlying EBITDA/ net finance charges	>4.00	14.83 times

The rationale for preparing the financial statements on a going concern basis is set out on page 53.

Mark Hoad
Chief Financial Officer
8 March 2017

Our business

Transportation Sensing and Control

Page 34

Our **Transportation Sensing and Control** business develops both sensors and control solutions for leading automotive OEMs and suppliers such as powertrain suppliers for various categories of automotive including passenger cars and trucks. Our products are used in a wide range of applications on a vehicle, with almost all of them focused on safety and driver assistance features.

Revenue

£237.2m

2016	£237.2m
2015	£205.8m
2014	£230.5m

Underlying operating profit

£3.2m

2016	£3.2m
2015	£(1.4)m
2014	£1.4m

Main markets
- Passenger cars
- Trucks
- Two-wheelers

Industrial Sensing and Control

Page 35

Our **Industrial Sensing and Control** division develops products including optoelectronic, potentiometers, pressure, flow temperature and EPS sensors. Our products are used in applications ranging from robotics, sensors used in cashpoints and industrial printing to temperature sensors used in metal processing and power generation.

Revenue

£64.4m

2016	£64.4m
2015	£61.0m
2014	£58.8m

Underlying operating profit

£11.9m

2016	£11.9m
2015	£11.4m
2014	£12.8m

Main markets
- Industrial
- Medical
- Transportation
- Oil and gas

Advanced Components

Page 36

Our **Advanced Components** division creates ultra-reliable and highly engineered components used within applications such as circuit protection power management and signal conditioning. Examples include circuit protection for sophisticated defence systems and motor braking where excess energy needs to be discharged safely.

Revenue

£121.3m

2016	£121.3m
2015	£95.3m
2014	£98.8m

Underlying operating profit

£10.3m

2016	£10.3m
2015	£6.0m
2014	£9.5m

Main markets
- Aerospace and defence
- Industrial
- Transportation
- Power and energy

Integrated Manufacturing Services (IMS)

Page 37

IMS's core capabilities are relied on by our OEM customers to provide high mix low volume manufacturing solutions in our highly controlled and accredited facilities worldwide. Our products go into a wide range of end products ranging from medical devices, such as mass spectrometry detectors to power control modules used in rail transport infrastructure to single box avionics solutions.

Revenue

£147.0m

2016	£147.0m
2015	£147.8m
2014	£136.2m

Underlying operating profit

£5.9m

2016	£5.9m
2015	£5.7m
2014	£5.5m

Main markets
- Aerospace and defence
- Medical
- Industrial
- Transportation

Transportation Sensing and Control

The Transportation Sensing and Control (TS&C) division has performed strongly, making a step change in performance with the division returning to profitable growth faster than expected. Revenue for the division was £237.2 million (2015: £205.8 million) up by 15 per cent. There was a positive foreign exchange impact of £22.6 million. Revenues increased by 4 per cent on an organic basis as a result of market demand in both Europe and China, together with new contract wins in China to service the growing domestic market.

Underlying operating profit was £3.2 million (2015: £(1.4) million), an increase of £4.0 million at constant currency due to the realisation of benefits from the Operational Improvement Plan, together with the impact of organic growth. There was a £0.6 million foreign exchange benefit. Operating margins improved by 200 basis points to 1.3 per cent (2015: minus 0.7 per cent).

The strong financial performance reflects the faster than expected turnaround in the business. We have gained momentum in our strategy by focusing on areas of the market where there are structural growth drivers including safety, emissions and power electronics. We have maintained our strong position in Europe while driving growth in China in the sizeable domestic market, and securing our first major win in the US earlier this year, marking our re-entry to the large US market where we see opportunity to grow market share over the medium term.

We have seen good growth in China with five new customers won during the year for position sensors in chassis applications in addition to further revenue growth with a number of existing customers. We have seen the ramp up of a new pedal platform and global crankshaft platform which has increased volumes sold in China. Our European operations have also performed strongly with significant ramp up of new contracts during the year including for remote lights, LED lighting solutions and a chassis height sensor solution.

During the year, we also launched a new automotive actuator to deliver significant improvements to our next generation haptic accelerator pedals offering power-efficient transmission and a significant weight reduction from previous generation offerings, improving our customers' fuel efficiency.

	2016	2015	Change	Change constant fx
Revenue	**£237.2m**	£205.8m	15%	4%
Underlying operating profit[1]	**£3.2m**	£(1.4)m	329%	500%
Operating profit margin[1]	**1.3%**	(0.7)%	200bps	170bps

(1) Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).

Percentage of Group revenue
42%

Percentage of Group underlying operating profit
10%

Positioned for the next generation of automotive solutions

We have positioned TS&C in the right areas of the automotive market to benefit from increasing electrification, additional sensors on cars, and the market trend towards electric, hybrid electric and autonomous vehicles. New drives in emissions legislation have refocused industry efforts on turbo-charged engines, where we have won a new contract during the year for our high temperature sensors for a leading German OEM. We also have a wide range of products for exhaust after treatment including fluid quality sensors which we offer in Europe, India and Korea.

Percentage of Group revenue
11%

Percentage of Group underlying operating profit
38%

Industrial Sensing and Control

Industrial Sensing and Control (IS&C) revenues increased by 6 per cent from £61.0 million to £64.4 million. There was £6.4 million of positive foreign exchange impact, with revenues decreasing by 4 per cent on an organic basis. The decrease in revenues was in large part a result of challenging North American industrial markets, although the division returned to modest growth in the second half of the year.

The division maintained strong profitability despite the decline in revenues and an increase in R&D expense to support future growth. Underlying operating profit was £11.9 million (2015: £11.4 million) up by 4 per cent. Operating profit margin was 18.5 per cent, down 20 basis points from 18.7 per cent in 2015. There was a £1.5 million foreign exchange benefit.

Our optoelectronics offerings, that combine the use of electronics and light, have seen good growth throughout the year, improving the mix of business towards higher reliability and precision offerings which have a higher margin profile.

During the year IS&C launched a number of new products to support future growth including a component that transfers electrical signals between two isolated circuits using light, to support satellites and spacecraft. We also launched a high-performance industrial pressure transmitter for a range of industrial applications including chemical plants, mining, power generation and plastics manufacturing. Our continued R&D efforts will continue to provide our customers with high precision, high reliability components for industrial, medical and transportation markets.

	2016	2015	Change	Change constant fx
Revenue	**£64.4m**	£61.0m	6%	(4)%
Underlying operating profit[1]	**£11.9m**	£11.4m	4%	(8)%
Operating profit margin[1]	**18.5%**	18.7%	(20)bps	(60)bps

(1) Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).

New win to provide high-precision solution for ATM machines

During the year we won a contract with a longstanding American computer hardware, software and electronics customer. TT will provide an integrated high precision optical sensor and circuit board assembly used in ATMs. Our expertise in optical design and ability to quickly move from concept to production and demonstrate the performance and quality of our solutions enabled us to win the business. The reliability for detecting the presence of different mediums used for monetary transactions is an established but growing market, driven by the introduction of new and more sophisticated bank notes, particularly in developing countries. This success builds our position in a market where we can benefit from structural growth drivers.

Advanced Components

Advanced Components revenues increased by 27 per cent to £121.3 million (2015: £95.3 million). The division returned to growth in the second half of the year and for the year as whole revenues increased by 3 per cent on an organic basis. Aero Stanrew contributed £18.3 million of revenues and there was a positive foreign exchange impact of £5.0 million.

There was an improvement in underlying operating profit to £10.3 million (2015: £6.0 million). The increase was due to the Aero Stanrew profit contribution of £3.4 million, together with drop-through on the organic growth. There was a positive foreign exchange benefit of £0.2 million. Operating margins increased by 220 basis points to 8.5 per cent (2015: 6.3 per cent), reflecting good efficiency improvements and the incorporation of the higher margin Aero Stanrew business.

Advanced Components released 11 new products during the year, further enhancing its position as a global leader in circuit protection, detection and power management across aerospace and defence, transportation and industrial markets. These product launches will position the division to benefit from structural growth drivers in these markets. This includes smart meters where we continue to see strong demand for wire wound resistors targeted at the smart metering business as a result of European legislation.

We are experiencing good growth in automotive electro-magnetics due to rising demand for high quality components for power management as our customers manage the increasing power requirement of more electronic content in cars. Our electromagnetic capabilities have been enhanced by the acquisition of Aero Stanrew and additional product launches including two power inductors and a transformer targeting demanding high temperatures in automotive and industrial applications.

This year we launched mag-Net®, a new connector which forms part of a soldier system for the digital battlefield. The system is for the next generation digital battlefield which enables communications for the connected soldier. mag-Net® is currently being used in equipment trials with a large customer in the defence industry.

	2016	2015	Change	Change constant fx
Revenue	**£121.3m**	£95.3m	27%	21%
Underlying operating profit[1]	**£10.3m**	£6.0m	72%	66%
Operating profit margin[1]	**8.5%**	6.3%	220bps	230bps

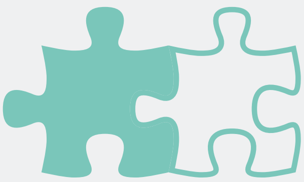
(1) Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).

Percentage of Group revenue
21%

Percentage of Group underlying operating profit
33%

Adding to our existing capabilities

Aero Stanrew is a leader in the design and manufacture of electromagnetic components and electrical systems for harsh environments and safety critical applications. The business is primarily focused on aerospace and defence markets with sole-source positions on key growing platforms, providing good visibility of future revenues. Our strategy is to move up the value chain, from components to subsystems and continue to position ourselves to take advantage of increasing electronic content on aircraft. As a result of a collaborative 'One TT' sales effort, we secured a new contract with a global engine manufacturer, already an Aero Stanrew customer, for Application-specific Integrated Circuit (ASIC) solutions from our clean room in Bedlington.



Percentage of Group revenue
26%

Percentage of Group underlying operating profit
19%

Integrated Manufacturing Services

Integrated Manufacturing Services (IMS) revenues were down 1 per cent to £147.0 million (2015: £147.8 million). There was a positive foreign exchange impact of £9.0 million and, on an organic basis, revenues declined by 6 per cent. Revenues in China were strong, with new customers won in transportation and medical markets. The division was faced with challenging industrial markets in the US which resulted in a volume reduction as project revenues ended as expected.

Underlying operating profit increased from £5.7 million in 2015 to £5.9 million in 2016. There was a positive foreign exchange benefit of £0.9 million. In China good progress with operational efficiency measures supported a strong contribution to the divisional performance. The impact of the reduction in volume in the US was mitigated in large part through a 22 per cent headcount reduction and other cost reduction actions. Operating margins were increased to 4.0 per cent (2015: 3.9 per cent).

IMS provides services customers primarily in aerospace and defence, medical and industrial markets, all of which are responding to the need for increasing electronic content. In medical markets, we have seen strong growth in life sciences, ophthalmology and direct patient care, including winning a new contract with an Australian optometry equipment provider.

During the year, there continued to be good collaboration across IMS sites and between IMS and our other divisions. Within IMS, our UK site in Rogerstone and our Chinese site in Suzhou collaborated on a cabin lighting project for a customer. In addition, IMS has been supporting the good growth in Advanced Components by providing specialist manufacturing capabilities for engine test equipment.

	2016	2015	Change	Change constant fx
Revenue	£147.0m	£147.8m	(1)%	(6)%
Underlying operating profit[1]	£5.9m	£5.7m	4%	(11)%
Operating profit margin[1]	4.0%	3.9%	10bps	(20)bps

(1) Excluding restructuring costs, asset impairments and acquisition related costs (see note 7).

Strong growth in Asia

During the year, we won a number of new contracts in Asia in addition to expanding existing customer relationships. Sales in Asia increased by 17 per cent. In particular, we have seen strong growth in the Chinese rail market. During the year, we won a three-year contract to provide design and manufacturing services for the Chinese metro lines. We have started to win new customers across Asia Pacific as a result of focused sales efforts to meet growing regional demand. This includes a Korean semi-conductor customer won during the year.

> **"I'm keen that TT does the right thing, maintaining high standards of ethics and integrity. TT is committed and proactive in playing a positive role as a good corporate citizen. We can and will make a positive impact for our customers and the communities in which we operate, as well as creating a good place to work."**

Richard Tyson
Chief Executive Officer

The TT Way

We launched the 'TT Way', the culture we aspire to, alongside our strategy, to develop and guide the way we behave. The principles of the 'TT Way' are:

- We do the right thing
- We bring out the best in each other
- We achieve more together
- We champion expertise
- We get the job done... well

The Bedlington site team was recognised as "Fundraiser of the Year" at the 2016 Best of Northumberland Awards.

Making a difference

TT employees raised £46,817 for charities across the globe in 2016. From bike rides in Britain, running in Germany, hiking in China and skittles nights in Wales, hundreds of our employees have taken part in raising money to give something back to the communities in which we operate and the world in which we play our part. Our people at TT have done more than just raise money to support our communities; many more have given their time, care and attention to activities to support others. From donating blood in Juarez to delivering 'meals on wheels' to local residents and helping out at local schools and orphanages, we are proud to do the right thing by supporting others in need.

We do the right thing

We do the right thing

We aspire to do the right thing in the local communities in which we operate, for our employees and for the charities we support. As an organisation, we hold ourselves to high ethical and business standards.

Working with the communities in which we operate

TT is a global operation with 27 sites. At many of our sites, we have been a local employer for many years, and we encourage our employees to play an active role in supporting the local community. In 2016, we engaged in a number of activities around the world to give something back to the communities we work in. In 2016, TT and our employees raised £46,817 to support charities globally.

In Mexicali, 62 volunteers from our Industrial Sensing and Control and Advanced Components teams joined together to take part in a major community support project. The team transformed a local elementary school, working with teachers and pupils on activities including general maintenance, painting, cleaning and gardening. The work helped improve the environment in which the children work and learn, helping them feel proud of their school.

In Juarez, 63 volunteers donated blood to a local hospital for children with cancer. The efforts of our employees helped support blood stock levels in the local community and beyond.

In Perry, our employees raised money for the Sub Zero Mission, an important local charity working to reduce extreme weather risk for the homeless and financially vulnerable. The fundraising contributed to 17 new military-grade sleeping bags and other winter clothes to support the most vulnerable in the local community.

In the UK, we have been supporting Macmillan Cancer Research. Seven of our UK sites joined together for the "World's Biggest Coffee Morning" in aid of the charity, baking and selling cakes to raise money. During the year, 36 of our employees took part in "the Tour de TT", a 500 mile charity bike ride over five days, visiting four sites across England and Wales. The bike ride raised £34,000 for Macmillan and local site charities. The fundraising of the Bedlington site team was recognised as "Fundraiser of the Year" at the 2016 Best of Northumberland Awards.

Inspiring the next generation of engineers

TT supports the development of future generations of engineers. We focus on supporting local science, technology, engineering and mathematics (STEM) partnerships to promote careers in electronics and related fields. Our employees have attended careers fairs and festivals, sponsored student projects, worked collaboratively with schools hosting student site visits and allowed employees to volunteer time supporting school projects.

We do the right thing

We support and promote apprentice schemes across TT. We have apprentices in engineering, maintenance, operations, finance and business administration functions and the schemes are key to our talent management and succession planning.

Ethics

TT holds ethical standards in high regard, operating with integrity and to one standard worldwide. We do not tolerate corruption or bribery in any form, and are committed to maintaining the fundamental principles of fairness, honesty and common sense which lie at the heart of the Group's philosophy, values and corporate standards. We operate effective systems and processes to counter corrupt practices, including an anonymous "whistleblower" reporting facility via which individuals can notify us of concerns.

Whistleblowing issues are reported directly to management or through the Group's multi-lingual, anonymous ethics and integrity portal. Significant issues are reported to the Audit Committee and, in each instance, cases are investigated in detail and appropriate action taken.

Strong business ethics form the basis of our relationships with all of our key stakeholders, including employees, customers, partners and suppliers. Our Statement of Values and Business Ethics Code sets out the operating principles to which we adhere, which cover a diverse range of issues including anti-bribery, information assurance, intellectual property protection, fair competition, the working environment (including standards of behaviour expected from our employees), hospitality/entertainment and avoiding conflicts of interest.

Day-to-day oversight of ethics and compliance-related matters is undertaken by our Corporate and Social Responsibility Committee, which is supported by a dedicated Environmental, Health and Safety Committee, under the leadership of our EVP Operations and supply chain. For any matters of particular concern, an Ethics Committee is convened on an 'as needed' basis, constituted from member of the Executive Management Board.

Human rights

TT is committed to upholding the human rights of our workers and to treating them with dignity and respect as understood by the international community. Our Human Rights Code is contained within the EICC Code of Conduct (see below) and covers all workers including permanent, temporary, migrant, student, contract, direct and indirect. Our Code details expected labour standards and is supported by our Modern Slavery policy which can be found on our website: www.ttelectronics.com.

We do not tolerate practices which contravene international standards. Regulatory demands upon us vary considerably around the world; however, we have established a core structure to ensure that Group companies fully comply with legislative and regulatory requirements while permitting them to tailor their approach to particular local needs.

Everyone in TT is responsible for having due regard for human rights. Managers and supervisors must provide leadership that promotes human rights as an equal priority to other business issues. All employees are responsible for ensuring that their own actions do not impair the human rights of others, and are encouraged to bring forward, in confidence, any concerns they may have about human rights.

Upholding high standards – Electronics Industry Citizenship Coalition (EICC)

We maintain an active involvement with the EICC.

The EICC's Code of Conduct provides guidelines for performance and compliance in five critical areas: Environment, Ethics, Health & Safety, Labour and Management Systems. In particular, the Code of Conduct establishes standards to ensure that working conditions are safe, that workers are treated with respect and dignity and that business operations are environmentally responsible and conducted ethically.

All of our manufacturing facilities complete an EICC survey on a periodic basis, which measures performance and social practices, as well as the performance of social and environmental management systems. The most recent evaluation exercise demonstrated high levels of adherence to the Code of Conduct for sites across the Group, leading to them all being assessed as either "low" or "medium" risk.

We are mindful of our environment
Emissions resulting from operations reduced by
17%

Mindful of our environment

We are mindful of the environment in which we operate and monitor greenhouse gas emissions so we are aware of the impact we have on the environment. For the year ended 31 December 2016, the Group's greenhouse gas emissions (detailed below) were calculated via the Group's management accounting system, verified by third party supplier invoicing, using the factors for converting energy usage to carbon dioxide equivalent emissions published by DEFRA in June 2015.

Carbon dioxide equivalent (tonnes)

	2016	2015[1]
Emissions resulting from operations and combustion of fuel	3,044	3,562
Emissions resulting from the purchase of electricity, heat, steam or cooling	39,482	39,464
Total	42,526	43,026

(1) These figures represent all material emissions. Other greenhouse gases emitted as a result of the manufacturing process are not included within this figure since these represent a negligible proportion (less than 1.25 per cent) of our emissions overall. For ease of calculation, combustion of fuel from some vehicles owned or operated by the Group (company cars) has been calculated based on the presumption that company cars fall within the 'large' category and, as a result, has potentially been overstated.

The Group has chosen to adopt emissions per £1 million of revenue as its intensity ratio. For 2016, emissions were 74.62 tonnes of carbon dioxide equivalent per £1 million of revenue (2015: 84.38).

Compliance

TT places a strong emphasis on business integrity. We ensure that we operate in an environment in which innovation can flourish within a compliance and risk-focused culture.

During 2016, we have worked hard to develop a more integrated approach to governance, risk and compliance. Compliance with laws and regulation has been identified as one of our principal Group-level risks, and is monitored on a regular basis by the Risk Committee, with appropriate mitigations being adopted as required. Given the Group's focus on defence and aerospace, we have applied a dedicated training programme across our US operations, followed by an audit programme and a refresh of our export control policies. This programme of work follows a similar programme undertaken in 2015 across our UK operations.

Technology showcase at STEM festival

During 2016, TT took part in the first STEM festival held in Winchester, UK. Attracting over 1,000 students and teachers from the local area, the festival provided young people with an inspiring insight into STEM careers and opportunities. Four R&D team members from Bedlington, Cambridge and Lutterworth represented TT – sharing their experiences and showcasing our technologies and some of the exciting products we design and manufacture.

We bring out the best in each other

Treating our people with respect, equal opportunities and diversity

TT is committed to employment policies that provide and promote equal employment opportunities for all our employees and applicants, and to maintaining a workplace that ensures tolerance, respect and dignity for all staff. No employee, applicant, contractor or temporary worker should be treated less favourably, victimised or harassed on the grounds of disability, sex, marital or civil partnership status, race, nationality, colour, ethnicity, religion or similar philosophical belief, sexual orientation, age or any distinction other than merit. Consideration is always given to human rights principles as part of the Group's working practices.

Modern slavery

TT is committed to acting ethically and with integrity in all of its business dealings. As part of this commitment, TT has adopted a zero-tolerance approach to modern slavery, whether in the form of servitude; forced, bonded, or indentured labour; slavery; human trafficking or any other activity that amounts to an unreasonable restriction on the free movement of workers.

Our business model is based on providing our customers with engineered products, services and expertise for performance-critical applications. In meeting our customers' requirements, we operate procurement programmes through global supply chains, involving a wide network of suppliers and distributors. It is recognised that within this structure (as with all other participants operating in our business sector), the potential exists for the human rights of individual workers to be violated.

The Board has adopted a policy on modern slavery, setting out the standards we expect from all our employees, contractors, suppliers, distributors and other business partners. A copy of our modern slavery statement can be found on our website www.ttelectronics.com

Engaging our people

It is important to us that our employees, at all of our sites globally, feel part of our BE TT strategy, building expertise in TT. Engaged employees are critical to our success; our employees make TT the organisation it is today.

We ask employees to participate in an employee engagement survey each year to gather feedback on their views. In 2016, our employee survey received an overall response rate of 77 per cent, up from 70 per cent in 2015, indicating our employees are increasingly engaged.

We communicate frequently and openly with our employees, and we received strong feedback from employees, telling us they know how their role contributes to the strategy. We continue to promote the "TT Way", our aspired to culture that is open, transparent and collaborative. At all levels, we encourage and support a high degree of openness and equality which will continue to make TT a great place for our employees to work. We strive to maintain engagement with our employees at all stages, from application through to retirement. We approach interaction with openness, honesty and integrity, building strong relationships on trust. Collaboration across the Group helps us share our learnings and expertise, improving the way we operate and serve our customers.

We have a "BE Inspired" programme to recognise teams and individuals that excel in demonstrating the "TT Way" behaviour. In 2016, we received over double the number of nominations for these awards, demonstrating increased engagement across TT.

Engagement improved in 2016

77%

We champion expertise

Our employees

Our employees are our expertise. Through training and developing our employees and working together, we unlock the potential of TT.

We have 5,886 employees across TT, divided equally between men and women.

The table below provides a detailed breakdown.

Employees (full time equivalent)	Male	Female
Main Board of Directors	6	1
Executive Management Board (EMB)	6	2
Senior Managers (Ex EMB)	33	7
Austria	198	79
Barbados	23	76
China	400	457
Germany	411	408
India	40	5
Malaysia	76	471
Mexico	429	455
Romania	244	246
Tunisia	7	31
United Kingdom	814	466
USA	232	239
Other	15	8
Total	**2,934**	**2,952**

Creating a positive working environment at all of our sites is of paramount importance to us at TT. We strive to build a supportive, diverse and engaging place to work, whilst nurturing a high performance culture across the Group, built around the "TT Way".

Training and developing our people

"Building expertise" is at the centre of our growth strategy and we are committed to growing the expertise of our people. Personal development is important to TT as well as furthering individual careers.

We continue to invest and prioritise the training and development of our people, equipping people with the right skills to do their jobs well, enabling them to unlock their potential and the potential of TT.

We have developed a programme to support managers within our organisation. Having launched the "TT Way of Management" last year, we rolled the programme out across the business during 2016. The programme promotes the TT Way behaviours and provides a means for improving performance at all levels of the organisation and supporting TT as a great place to work.

At the end of 2016, we launched a new global induction programme. We want to ensure that all new joiners to TT know about the business beyond their local site. We ensure our people know who we are, our strategy and the "TT Way" from the start of their career with TT.

Alongside Group-wide training and development initiatives, we provide a range of specific and tailored training to meet business needs. Our master lean practitioner (MLP) training has ensured we promote our operational efficiency improvements and they flourish across each of our sites. Our master lean practitioners supported four pilots globally in 2016, with notable success. In one pilot, we saw a reduction in down time of 70 per cent.

We will continue to develop and engage our people, who have the expertise to put our customers ahead. With the continued commitment of our employees, we have increasingly worked as "One TT" and shaped a successful performance in the year.

The 2016 Strategic report, from page 2 to page 43, has been reviewed and approved by the Board of Directors on 8 March 2017.

Richard Tyson
Chief Executive Officer

Mark Hoad
Chief Financial Officer

Chairman's introduction to governance

Neil Carson
Chairman

Last year, I reported that the Board's governance activities had been restructured to address the need to refocus and rebuild the business, with a view to achieving long-term sustainable growth. This evolution has continued in 2016, with the governance agenda now much more focused on the strategic priorities of the Group, where the Board considers it can add most value.

For 2016, this has involved assessing opportunities to accelerate growth (both organically and through targeted M&A), monitoring delivery of the Group's operational plan (with a particular focus on Health & Safety performance and driving improved operational efficiencies from the "BE Lean" programme), analysing opportunities for site rationalisations and prioritising new product introductions. In addition, the Board devoted a significant part of one of its meetings to considering the implications for TT arising out of the UK referendum vote on membership of the EU. These activities are described in more detail in the remainder of this Governance and Directors' Report.

The Board recognises that its governance processes need to be structured appropriately to safeguard the interests of shareholders, customers, employees and other key stakeholders. In particular, it is understood that the Board has a duty to ensure that the Group's risk management procedures meet the long-term needs of the business and its wider strategic goals.

In this regard, I can confirm that the Board remains committed to maintaining the highest standards of corporate governance, which we believe is of paramount importance to the future success of the Group. More particularly, the Board confirms that in relation to its governance processes, the Group has been in full compliance with the requirements of the UK Corporate Governance Code ("the Code") throughout 2016.

In relation to Board composition, I noted in last year's Annual Report that we embarked on a recruitment exercise in early 2016 to refresh the Board structure in order to ensure that an appropriate balance of skills and experience was maintained. I am delighted to report that this exercise resulted in the appointment of Jack Boyer and Alison Wood to the Board, two highly experienced non-executive Directors who collectively bring a wealth of M&A, engineering/technology and strategic planning insight to the Group, across a diverse range of private company and listed organisations. In August, Alison replaced John Shakeshaft as Chairman of the Remuneration Committee upon his retirement from the Board. John served as a non-executive Director of the Company for a period of nine years and on behalf of the Board, I would like to express my appreciation for his service to TT and his significant contribution to the Group's development throughout that time. Upon John's retirement, Stephen King was appointed as the Company's new senior independent Director, which is in addition to his role as Chairman of the Audit Committee.

More online
www.ttelectronics.com

"The evolution in our governance activities has continued in 2016, with the agenda now much more focused on the strategic priorities of the Group, where the Board considers it can add most value."

Neil Carson
Chairman

As we have made clear in previous Annual Reports, diversity is considered to be a key business enabler across the Group and the Board seeks to ensure that equal opportunity is afforded to all, regardless of gender, age, ethnic background or religious belief. Whilst we have never advocated a forced approach to diversity at any level within the organisation, I am pleased with the steps we have taken in 2016 to change the balance of the Board, both from a gender perspective and in the context of exposure to different international markets, technologies and ways of doing business. It is our belief that such changes will be important in ensuring that the Board continues to have the skills and competencies necessary to meet the strategic and operational needs of the business in the future. We also believe that this diversity of experience provides an excellent platform for meaningful discussion, constructive challenge and decision-making at Board level.

During 2016, we continued to structure our meetings so as to allow non-executives to interact with a range of employees across the business. As part of this process, the non-executives attended the TT Leadership Conference in April and had an opportunity to meet with delegates over dinner, whilst the Board also met with the Executive Management Board in December to discuss the strategic direction of the Group. In addition, the July Board meeting was held in Bedlington (Northumberland), where the non-executives were able to gain an insight into the operations of the Advanced Components Division at first hand and review the progress made on the BE Lean initiative at the first pilot site. I am also pleased to report that as part of his induction programme, Jack Boyer was able to attend our highly successful R&D Conference in September, which provided him with early visibility of our NPI and product road-map initiatives. As Chairman, I am keen to ensure that initiatives of this nature remain high on the Board's list of priorities during 2017, so that the non-executive Directors' exposure to the Group's operations remains current and relevant.

I am pleased by the progress we have made during 2016, both in terms of operational performance and the contribution made by the Board in the delivery of the Group's strategic priorities, supported by the governance framework we have created in recent years. I look forward to continuing this progression in the coming year, as we target the growth opportunities outlined in this report.

Neil Carson
Chairman

An experienced board
The skills and experience added to the Board give us the right composition to support the acceleration of the strategy at TT.

1. Neil Carson OBE
Chairman

Age: 59
Joined: 2015
Committees: Nominations (Chairman), Remuneration
Relevant skills and experience:
Currently senior independent Director and Chairman of the Remuneration Committee of Paypoint plc and Honorary President of SCI (the Society of Chemical Industry). Formerly Chief Executive of Johnson Matthey plc, a non-executive Director of Amec Foster Wheeler plc and a founder member of the Prince of Wales' Corporate Leaders Group on Climate Change. After completing an engineering degree, Neil joined Johnson Matthey in 1980 where he has held a number of senior management positions in both the United Kingdom and the United States. Awarded an OBE for services to the Chemical Industry in 2016.

2. Richard Tyson
Chief Executive Officer

Age: 46
Joined: 2014
Committees: Corporate Responsibility (Chairman), Risk (Chairman)
Relevant skills and experience:
President of the Aerospace & Security Division of Cobham plc from 2008 to 2014 and a member of their Executive Committee. Previously responsible for TRW Aeronautical Systems (formerly part of Lucas Industries) European aftermarket business before joining Cobham plc in 2003 to run its flight refuelling division.

5. Michael Baunton CBE
Independent non-executive Director

Age: 66
Joined: 2010
Committees: Audit, Nominations, Remuneration
Relevant skills and experience: Currently Chairman of the board of SMMT Industry Forum Limited (the Society of Motor Manufacturers and Traders' Industry Forum) and Non-Executive Chairman of VTL Group, Sertec Group Holdings Limited and ACAL Energy Ltd. Awarded a CBE in 2004 for services to the automotive and engineering industries in the UK. Previously held senior executive roles with companies including Caterpillar Inc, Perkins Engines Company Limited and Tenneco Inc.

6. Jack Boyer OBE
Independent non-executive Director

Age: 57
Joined: June 2016
Committees: Audit, Nominations, Remuneration
Relevant skills and experience: Currently a non-executive Director of Mitie Group plc (where he is also Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees), Chairman of the Academies Enterprise Trust, Deputy Chair of the Advanced Materials Leadership Council and also a Member of Council of the Engineering and Physical Sciences Research Council. Awarded an OBE in 2015 for services to science and engineering. Formerly non-executive Director and Chairman of the Remuneration Committee of Laird plc and prior to that, Chairman of Ilika plc. An entrepreneur, he previously founded and ran companies in the engineering, telecommunications and biotechnology sectors. Previously an investment banker at Goldman Sachs and strategy consultant at Bain & Co.

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3. Mark Hoad
Chief Financial Officer

Age: 46
Joined: 2015
Committees: Risk
Relevant skills and experience:
A Chartered Accountant, Mark was Group Finance Director of BBA Aviation plc, a FTSE 250 company, from 2010 to 2014. Prior to joining BBA as Group Financial Controller in May 2005, he spent nine years in a variety of management roles at RMC Group plc with periods in Germany, Croatia and Australia.

4. Stephen King
Senior independent non-executive Director

Age: 56
Joined: 2011
Committees: Audit (Chairman), Nominations
Relevant skills and experience: Currently Group Finance Director of Caledonia Investments plc and Chairman of the Audit Committee of the Board of Bristow Group Inc. Formerly non-executive Director and Chairman of the Audit Committee of The Weir Group plc. Group Finance Director of De La Rue plc from 2003 to 2009 and, prior to that, finance director of Aquila Networks plc (formerly Midlands Electricity plc). A Chartered Accountant, Stephen has also held senior financial positions in Lucas Industries plc and Seeboard plc and was also a non-executive Director of Camelot plc from 2008 to 2009.

7. Alison Wood
Independent non-executive Director

Age: 53
Joined: July 2016
Committees: Remuneration (Chairman), Audit, Nominations
Relevant skills and experience: Currently Senior Independent Director of e2v technologies plc[1], and a non-executive Director and Chairman of the Remuneration Committee of Costain Group plc, Cobham plc and the British Standards Institution. Formerly Global Director Corporate Development & Strategy for National Grid plc and prior to that, Group Strategic Development Director for BAE Systems plc responsible for corporate strategy, mergers and acquisitions, and strategic business development across the UK and US. Alison has previously held non-executive directorships at BTG plc and THUS plc.

(1) It is proposed that Alison will cease to be a Director of e2v technologies plc on completion of the sale of the company during the early part of 2017.

8. Lynton Boardman
General Counsel & Company Secretary

Age: 50
Joined: 2012
Committees: Corporate Responsibility, Risk
Relevant skills and experience: A qualified solicitor, having practised with Simmons & Simmons, Macfarlanes and Burges Salmon LLP. Formerly Head of Legal (Europe, Middle East and Africa) at Syngenta Crop Protection and then General Counsel and Company Secretary of QinetiQ Group plc from 2002 to 2011.

A strong leadership team Together, driving TT's strategy.

1. Richard Tyson
Chief Executive Officer

Date joined: 2014
Relevant skills and experience: Richard has over 20 years' experience in the communications, aerospace and defence industries. Richard has previously held senior positions at Cobham plc.

2. Mark Hoad
Chief Financial Officer

Date joined: 2015
Relevant skills and experience: Mark is a Chartered Accountant. He has previously held finance roles in BBA Aviation plc and RMC Group plc in Europe and Australia.

6. Amrei Drechsler
EVP Transportation Sensing and Control

Date joined: 2014
Relevant skills and experience: Amrei has over 20 years' experience in the automotive industry. Amrei has previously worked at companies including Continental, Siemens, TRW and GKN.

7. Tom Garvey
EVP Power Electronics

Date joined: 2016
Relevant skills and experience: Tom has more than 20 years' experience in aerospace and defence. Having joined from Cobham, Tom has experience setting and executing growth plans and developing customer-focused product and technology roadmaps.

3. Lynton Boardman
General Counsel & Company Secretary

Date joined: 2012
Relevant skills and experience: Lynton qualified as a lawyer with Simmons & Simmons. Lynton was formerly Head of Legal at Syngenta Crop Protection (EMEA) and General Counsel and Company Secretary at QinetiQ.

4. Candy Bowles
EVP Corporate Development and Strategy

Date joined: 2014
Relevant skills and experience: Candy has over 15 years' experience in strategy, turnaround and M&A in Europe and Asia. Candy was previously at LEK and CIL Consulting.

5. TC Chan
EVP Integrated Manufacturing Services

Date joined: 2015
Relevant skills and experience: TC has over 25 years' experience in aerospace and defence. He previously led Rockwell Collins Asia-Pacific and Goodrich Customer Services in Asia.

8. John Leighton-Jones
EVP Human Resources

Date joined: 2010
Relevant skills and experience: John has over 15 years' senior HR experience. John was previously HR Director of QinetiQ Group plc.

9. Tim Roberts
EVP Industrial Sensing and Control and Passives

Date joined: 2008
Relevant skills and experience: Tim has led a number of TT divisions over almost nine years with the Company. Prior to joining TT, Tim was Strategy Director for Spirent Communications plc.

10. Michael Robinson
EVP Operations and Supply Chain

Date joined: 2014
Relevant skills and experience: Michael has previously held positions in United Technologies and TE Connectivity. Michael's specialist skills lie in Health and Safety, Environmental practices, Lean operating systems, procurement and logistics.

UK Corporate Governance Code Compliance Statement

TT is committed to achieving and maintaining the highest standards of corporate governance. The main and supporting principles of good corporate governance set out in the UK Corporate Governance Code 2014 ("the Code") have been complied with throughout the year ended 31 December 2016. This version of the Code shall continue in effect for the financial year ended 31 December 2017. Details and explanations of the application of the principles of corporate governance are set out in the following pages of this Governance section.

Details of TT's Board of Directors are set out on pages 46 and 47 of this report. Pages 50 to 52 provide further information on how leadership at the Board level is discharged. Most importantly, the Board comprises a majority of independent non-executive Directors, with the division of responsibilities between the Chairman and Chief Executive Officer having been clearly articulated. During 2016, two new non-executive Directors, Jack Boyer and Alison Wood, were recruited and John Shakeshaft stepped down from the Board following nine years of service as a Director.

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

Relations with shareholders

The Chief Executive Officer and Chief Financial Officer meet institutional investors immediately after publication of the annual and interim results, and on an ongoing basis as required. In 2016, this included investor roadshows held over a total of ten days in respect of the annual and interim results. Additional ad hoc investor meetings and a specific investor event focused on our power electronic capabilities in Aerospace and Defence were also held during the year. Feedback on Investor Relations issues is reported to the Board so that all Directors develop an understanding of the views of major shareholders about the Company. Trading updates and press releases are issued as appropriate and the Company's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings. Information offered at analysts' meetings together with our financial press releases are available on the Group's website. The Annual General Meeting is also used by the Directors to communicate with both institutional and private investors.

The Board

Subject to the Company's Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The Board's main roles are to provide leadership to the management of the Group, determine the Group's strategy and ensure that the agreed strategy is implemented. The Board has also reserved certain specific matters to itself for decision. These include financial policy and policy relating to acquisition and disposal. The Board appoints its members and those of its principal Committees having received the recommendations of the Nominations Committee. It also reviews recommendations of the Board Committees and the financial performance and operation of the Group's businesses. It regularly reviews the identification, evaluation and management of the principal risks faced by the Group and the effectiveness of the Group's system of internal control.

During 2016, the Board comprised two executive Directors and between four and six non-executive Directors as the Board composition changed in the middle of the year. Neil Carson, Richard Tyson, Mark Hoad, Stephen King and Michael Baunton all served throughout the year. Jack Boyer and Alison Wood were appointed as non-executive Directors on 10 June and 11 July 2016, respectively. John Shakeshaft served as senior independent non-executive Director until 7 July 2016, when Stephen King succeeded him in that role. John Shakeshaft remained as an independent non-executive Director until 31 August 2016, when he stepped down from the Board, at which time Alison Wood became Chairman of the Remuneration Committee.

Board and Committee meetings are scheduled in line with the financial calendar of the Company, thereby ensuring that the latest operating data is available for review and sufficient time and focus can be given to matters under consideration. During the year there were seven principal Board meetings on scheduled dates for which full notice was given.

Additional meetings are held as and when required and, during 2016, two such meetings took place (to consider strategic projects and agree the content of the trading statement). Strategic issues were discussed on at least six occasions during 2016, either during Board meetings or at a separate Board dinner. The Board has held two principal meetings to date during 2017. Full details of each Director's Board and Committee meeting attendance are given on page 52 and in the relevant Committee report.

Directors

Directors' biographies, including the Committees they serve and chair, are shown on pages 46 and 47. At the time of his appointment as Chairman, Neil Carson was considered to be independent in accordance with the provisions of the Code. All the remaining non-executive Directors are also considered to be independent as defined by the Code.

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

Directors' interests

The Directors of the Company at 31 December 2016 held interests in the following numbers of the Company's Ordinary shares of 25 pence each on 1 January 2016, 31 December 2016 and 6 March 2017:

	6 March 2017 Ordinary shares	31 December 2016 Ordinary shares	1 January 2016[1] Ordinary shares
Neil Carson	150,000	150,000	100,000
Richard Tyson	186,756	186,756	120,661
Mark Hoad	40,000	40,000	40,000
Stephen King	100,000	100,000	100,000
Michael Baunton	81,554	81,554	81,554
Jack Boyer[2]	40,500	40,500	–
Alison Wood[3]	–	–	–

(1) or date of appointment if later.
(2) Jack Boyer was appointed as a Director on 10 June 2016.
(3) Alison Wood was appointed as a Director on 11 July 2016.

The interests of the Directors in the Company's share options and Long Term Incentive Plan are shown in the Directors' remuneration report on pages 79 to 80.

The Chairman and Chief Executive Officer

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

The Chairman maintains responsibility for the leadership and effectiveness of the Board and setting its agenda; ensuring that all Directors receive accurate, timely and clear information on financial, business and corporate matters to enable them to participate effectively in Board decisions; facilitating the effective contribution of non-executive Directors in particular; ensuring constructive relations between executive and non-executive Directors; and ensuring effective communication with shareholders. He is also responsible for ensuring that the performance of individual Directors, the Board as a whole and its Committees are evaluated at least once a year.

The Chief Executive Officer is responsible for the operations of the Group. In particular, he is responsible for developing Group objectives and strategy, having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders and, following presentation to, and approval by, the Board, for the successful implementation and achievement of those strategies and objectives. His other areas of responsibility include managing the Group's risk profile, including its health and safety performance; ensuring that the Group's businesses are managed in line with strategy and approved business plans, and complying with applicable legislation and Group policy; ensuring effective communication with shareholders; and setting Group human resource policies, including management development and succession planning for the senior executive team.

Board procedures

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

In accordance with the provisions on conflicts of interest in the Companies Act 2006, the Company has put in place procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflicts by the Board. In deciding whether to authorise a conflict or potential conflict, the Directors must have regard to their general duties under the Companies Act 2006.

The authorisation of any conflict, and the terms of authorisation, may be reviewed at any time and, in accordance with best practice, a review of Director conflicts of interest is conducted annually.

Each member of the Board, including the senior independent Director, has the right to include items on the Board agenda or the agenda of the Committees on which they sit.

Board Committees

The Board has established a number of Committees, each with its own delegated authority defined in terms of reference. These terms are reviewed periodically and the Board receives reports and copies of minutes of Committee meetings. The Board appoints the members of all principal Board Committees, having received the recommendations of the Nominations Committee.

Principal Committees

The principal committees are the Nominations, Audit and Remuneration Committees. Details of the Nominations and Audit Committees, including brief descriptions of their terms of reference (full details of which are available for inspection by shareholders at the Annual General Meeting and on the Group's website) and duties, together with a summary of significant events which have taken place during the year, can be found on pages 55 to 61. Details of the Remuneration Committee and its activities are contained within the Remuneration report on pages 62 to 83.

Board meeting attendance 2016

Seven principal Board meetings were held during 2016. Details of attendance are set out below:

Neil Carson	7 of 7
Richard Tyson	7 of 7
Mark Hoad	7 of 7
Michael Baunton	7 of 7
Stephen King	7 of 7
John Shakeshaft	5 of 5
Jack Boyer	3 of 4
Alison Wood	2 of 3

Jack Boyer and Alison Wood were each unable to attend one meeting due to commitments entered into prior to their appointments as Directors of the Company, the schedule of meetings having been fixed over a year in advance.

Additional meetings of the Board and its principal Committees take place as and when required throughout the year. During 2016 there were two such meetings. By necessity, these meetings are often convened at shorter notice than would be the case for principal meetings. Neil Carson was unable to attend one of these meetings.

Beyond the principal meetings, the Board takes the opportunity to discuss important strategic and operational issues at Board dinners, which are scheduled to coincide with the principal meetings. During 2016, items such as strategic development, M&A opportunities, the parameters of the 2016 budget, the implications of Brexit (including the impact of market volatility and the decline in value of the pound), pension strategy, tax/treasury policy and optimisation of the Group's real estate portfolio were discussed in this forum. The non-executive Directors meet, without the executive Directors present, at the end of each scheduled Board meeting, as a standing agenda item.

Directors' attendance at meetings of the principal Committees on which they serve are detailed in the Nominations, Audit and Remuneration Committee reports on pages 55, 58 and 62.

Other Committees

Corporate Responsibility Committee

The Corporate Responsibility Committee is chaired by the Chief Executive Officer and also comprises one independent non-executive Director and four other senior executives from within the Group. The Committee met four times during 2016. The Board regularly receives reports on its activities.

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

Further information on the activities of the Corporate Responsibility Committee is given in "The TT Way" corporate responsibility section on pages 38 to 43.

Risk Committee

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

The composition of the Risk Committee is the same as that of the Executive Management Board and meetings are scheduled on a quarterly basis to align with meetings of the EMB. Due to the scheduling of the EMB meetings in 2016, the Committee met three times in the past year.

Further information on the Group's risk management activities and framework is given in the Risk management section on pages 24 and 25 and in the Review of internal controls on page 56.

Disclosure Committee

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

Going concern

The Directors have reviewed the budgets for 2017 and the projections for 2018 developed during the 2016 annual strategic planning cycle. The Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities, recognising that the main committed facility was re-negotiated in May 2016 for a period of five years to May 2021. 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 the Audit Report. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 8 March 2017 and signed on its behalf by:

Lynton Boardman
Group General Counsel & Company Secretary

Board and Committee performance evaluation

In accordance with the Code, the Board conducted an evaluation of its performance and that of its principal Committees during 2016. The potential use of external facilitators for the Board evaluation process was again considered during the year, but was ruled out in light of the changes in non-executive Directors during 2016. External evaluation will remain on the agenda for consideration in 2017, although the Board's preference is to build upon the positive working relationships developed in 2016 by embarking on a course of targeted team development (including areas such as team dynamics, self-awareness and unconscious-bias training).

The Board performance evaluation programme was led by the Chairman, with a new format adopted during 2016: the non-executive Directors each completed a skills matrix, in which they scored their own knowledge and expertise in key areas (such as product technology, regulatory and M&A) against their perceived benchmark standard for a listed company director. An event was then held, at which the completed skills matrices were used to identify any perceived areas of weakness in the skills held by the Board as a whole.

The Board agreed that there had been a significantly increased focus on strategic planning in 2016 when compared with previous years, and commented positively on both the clarity of the papers submitted to the Board and specific topics covered. It was recognised, however, that more could be done to enhance the Board's understanding of the Group's product range and the technical issues which underpin the strategic priorities for the business. The Board also suggested that increased analysis of competitor profiling would be of benefit in supporting their strategic decision making, together with a better understanding of employee engagement and the cultural issues arising therefrom.

Directors' performance evaluation

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

For the non-executive Directors, the skills matrices mentioned above, together with the output from a private meeting held between the Chairman and the executive Directors, formed the basis for individual appraisals held by the Chairman with each non-executive Director. This also provided an opportunity to discuss any issues which had arisen in respect of either their individual assessments or those of the Board and its principal Committees. In respect of the Chairman's performance, the other non-executive Directors, led by the senior independent non-executive Director, and with input from the Chief Executive Officer and Chief Financial Officer, met privately to discuss this, with the outcomes being fed back to the Chairman by the senior independent Director for discussion and action.

At the beginning of the year, each executive Director was set challenging performance objectives, progress against which was then reviewed as the year progressed. Both the executive Directors take part in the Group's performance management programme which, together with a review of progress against agreed goals and objectives, is used to assess performance and to set clear objectives and developmental plans for the following year (which are closely aligned with the Group's strategic priorities and values). The Chief Executive Officer meets with the Chief Financial Officer at the beginning of each year to discuss and review performance against objectives. The performance evaluation of the Chief Executive Officer was conducted by the Chairman, taking account of the output from the Group's performance management programme together with feedback provided by the other non-executive Directors at a private meeting held to discuss this and any other matters which the non-executive Directors wished to raise.

Nominations Committee

Neil Carson
Chairman,
Nominations
Committee

Membership:

Neil Carson (Chairman)
Michael Baunton
Jack Boyer
Stephen King
Alison Wood

Committee meeting attendance 2016	Meetings attended	Potential meetings
Neil Carson (Chairman)	3	3
Michael Baunton	3	3
Jack Boyer	1	1
Stephen King	3	3
John Shakeshaft	2	2
Alison Wood	0	1

Remit

The Nominations Committee's remit includes:

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

Committee meetings in 2016

During 2016 the Committee held three formal meetings. The Committee has held no meetings to date during 2017.

2016 review

The Committee seeks to ensure that the Board of TT Electronics is balanced and effective with diverse skills, knowledge and experience. Diversity and gender inclusiveness span the whole Group and are important and enduring considerations in the search for and selection of Board members.

In light of the fact that John Shakeshaft was scheduled to reach his ninth anniversary as a non-executive Director during 2016, and, as such, would no longer be considered an "independent" member of the Board under the UK Corporate Governance Code, a key focus for the Committee in the past year remained the non-executive composition of the Board.

The Committee is rigorous in seeking talent and is focused on ensuring that the Group has the best possible Board available to promote its interests. As disclosed in last year's Annual Report, in the latter part of 2015 the Committee engaged external search consultants to recruit one or more new non-executive Directors to replace John Shakeshaft and enhance the diversity of experience. This process continued during 2016, culminating in the appointments of Jack Boyer and Alison Wood in June and July 2016 respectively.

The Committee continues to consider that diversity quotas at Board level are inappropriate and is committed to recruiting the best talent available, based on merit and assessed against objective criteria of skills, knowledge, independence and experience. Its primary objective is to ensure that TT Electronics maintains the strongest possible leadership.

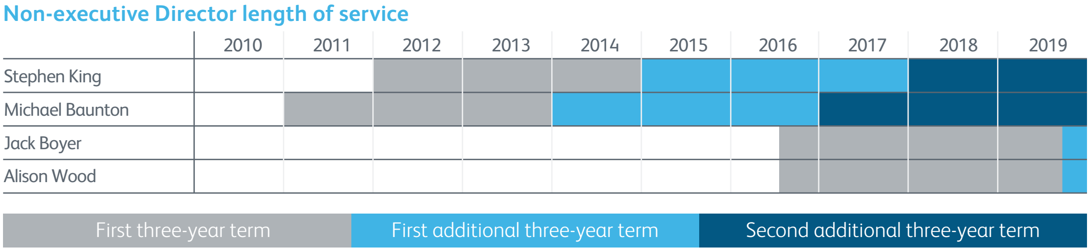
The Board attaches a high degree of importance to diversity at all levels across the Group, although of equal importance is the need to ensure that staff skills and competencies are matched to the strategic and operational needs of the business in its core markets. Details of the number of employees, senior managers and Directors of each gender are given in "The TT Way" corporate responsibility section on page 43.

Performance evaluation

The Committee carried out an assessment of its performance in 2016 based on a review of its activities during the year against its terms of reference. It was concluded that the Committee had performed satisfactorily and is structured appropriately to provide effective support to the Board, particularly in light of the Board changes implemented in 2016.

Neil Carson
Chairman, Nominations Committee

Non-executive Director length of service



Review of internal controls

In accordance with the UK Corporate Governance Code 2014, the Directors have overall responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness at least annually. These systems have been in place for the full financial year. The Group remains committed to a policy of maintaining appropriate internal control over all of its activities. Controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are properly authorised, and that material errors and irregularities are prevented or, if controls are failing, are discovered and mitigated on a timely basis. The systems of control are reviewed regularly and improved where necessary to meet the Group's requirements, as described above. Business risk evaluation takes place at operating company, divisional and Group levels through regular performance reviews and as part of the annual budget preparation process. Having identified risks, operating companies and divisions then monitor, review and update the associated controls to mitigate the risks appropriately.

Further details of the Group's exposure to risk and processes in place to manage the same are set out on pages 24 to 27.

The risk management procedures and systems of internal control are designed to identify and assess the principal risks which the Group faces and to manage them appropriately. However, such systems can only provide reasonable and not absolute protection against material misstatement or loss.

Principal features of the system of internal control

The Directors meet as a Board at least every other month to monitor financial performance, give direction on significant strategic and financial issues and review the principal risks of the Group.

The Chief Executive Officer chairs a Committee ("the Executive Management Board") consisting of the executive Directors, Divisional Executive Vice Presidents (i.e. heads of divisions) and other senior functional roles (e.g. Operations/Supply Chain, Legal, HR and Corporate Development/Strategy). The Executive Management Board holds meetings on a monthly basis (i.e. face-to-face on six occasions each year, and by teleconference each intervening month) and reviews business performance and the outlook for the Group as a whole, and agrees and implements any actions as necessary. In addition, it is responsible for monitoring and driving delivery of the Group's key priorities and acts as a forum to raise and debate significant operational issues.

Each operating company within the Group operates within the policies, rules and procedures determined by the Directors and communicated through an internet-based Group policies hub. The Directors exercise control over operating companies through divisional senior executives who monitor and oversee the activities, financial performance and controls of each operating company and seek to ensure that these companies comply with Group accounting policies in the process for preparation of consolidated financial statements. The directors of operating companies and heads of business units are held accountable for the effectiveness of the implementation and maintenance of controls within their companies. This provides constant and consistent management.

The Group has appropriate financial planning and reporting systems. Management accounts are prepared monthly by each operating company comparing actual performance with budget, forecast and prior year. The financial performance of each business unit is subjected to in-depth formal review at monthly meetings. A key purpose of these reviews is the early identification of potential business risks and agreement on suitable and prompt courses of action. Operating companies prepare strategic plans and annual budgets and forecasts which are consolidated up to a divisional and Group level and are reviewed and approved by the divisional senior executives, Group management and the Board.

The Group has in place comprehensive control and approval procedures which include appropriate authorisation levels. Capital investment and other major items of expenditure are made only after compliance with appraisal procedures and, if above set levels, only with the approval of the executive Directors and the Board.

Accounting and reporting policies and practices require that the Group's accounting records are prepared accurately and in compliance with Group policy and relevant accounting standards.

The Risk and Assurance function reviews the internal control environment according to the annual internal audit plan agreed with the Audit Committee. In accordance with the decision made by the Audit Committee in May 2015, the arrangement by which the Internal Audit function was outsourced to PwC continued throughout 2016. The reporting line for this directed outsource arrangement continues to be through the Chief Financial Officer. Responsibility for determining the priority areas to be covered by the Internal Audit work programme, as well as follow-on mitigation and remediation activities, remains with the Group (with oversight from the Audit Committee), and includes monitoring the delivery of such services (and reporting back to the Audit Committee) on a periodic basis.

During 2016, the Group refreshed its Financial Controls Framework which is to be applied by all entities in the Group. The updated Framework drives improvement and consistency in our financial control environment, in many cases deploying system based controls to achieve control objectives. The new Framework was successfully deployed at the first two sites in 2016 and there is a programme in place to complete deployment across all of the Group sites during 2017.

Certain key functions, including treasury, taxation, pensions, provision of legal advice, risk and insurance are controlled at the Group's head office and are monitored by the executive Directors.

The Directors have reviewed the effectiveness of the systems of risk management and internal control during the year to 31 December 2016 and during the period since then to the date of this report. They have made, and will continue to make, improvements where necessary.

Stephen King
Chairman,
Audit Committee

Membership:
Stephen King (Chairman)
Jack Boyer
Michael Baunton
Alison Wood

Committee meeting attendance 2016	Meetings attended	Potential meetings
Stephen King	4	4
Michael Baunton	4	4
Jack Boyer	2	2
John Shakeshaft	3	3
Alison Wood	0	1

Remit

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

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

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

Committee meetings in 2016

During 2016 the Committee held four scheduled meetings.

The Committee met twice with the Group's Auditors, KPMG LLP, in 2016 without executives of the Company being present. During the year, the Committee also met once with representatives of the outsourced internal control function without other executives of the Company being present.

The Committee has held one meeting to date during 2017.

2016 review

In order that the Audit Committee fulfils its duties regarding the integrity of the financial statements and other financial data, the Chief Financial Officer and the Group Director of Financial Control attend Committee meetings, presenting reports and providing analysis and explanations for queries raised. The external Auditors are also attendees and present reports on their audits. They address such matters as an overview of the financial statements, key accounting judgements, accounting policies, audit differences and internal control matters. On occasion, at the request of the Committee, the Chairman and the CEO also attend for part of the scheduled Committee meetings.

The Group's internal audit activities are conducted under a directed outsource arrangement, which is managed by PwC. Representatives of PwC also attend meetings to update the Audit Committee on: progress on the internal audit plan; findings and recommendations; and team and methodology improvements. The effectiveness of this directed outsource arrangement was considered by the Committee as part of its year end approval process. The Committee also regularly receives updates on the Group's risk management framework to allow members to review principal risks and the effectiveness of risk management processes.

In addition to standing agenda items, during 2016 the Committee also reviewed and considered matters including:

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

Taxation/treasury and IT and cyber security were included for consideration by the Committee on the 2016 forward planner, but, in each case, it was decided that these items should be included on the Board agenda and considered by the Board as a whole with specific input from the Chairman of the Audit Committee to the Board on the principal areas covered. Whistleblowing matters reported through the Group's multi-lingual, anonymous Ethics and Integrity portal are reported to, and considered by, the Committee as and when such issues arise.

The Audit Committee received the Financial Reporting Council's letter of October 2016 addressed to Audit Committee Chairs and ensured that its contents were taken into consideration before approving the 2016 Annual Report.

The Committee has reviewed and challenged the form and content of the Group's annual report and accounts and financial statements for 2016. In conducting its review, the Committee considered reports prepared by management and the external Auditors. These reports covered analyses of the judgements and sources of estimation uncertainty involved in applying the accounting policies as described in note 1(h) to the financial statements.

The Committee considered and challenged the assumptions relating to goodwill, the carrying value of fixed assets, the level of provisions held on the balance sheet (as detailed below), the Going Concern statement on page 53 and the Viability statement on page 25. The Committee also considered and challenged items excluded from underlying profit and whether these were consistent with the accounting policy of the Group.

Significant issues considered in relation to the financial statements

The main areas of judgement and estimation are set out in the accounting policies on pages 99 to 105.

The Committee received and reviewed reports from management and the external Auditors setting out the significant issues in relation to the 2016 financial statements, which related to:

- Underlying profit and restructuring provisions;
- Provisions (including taxation and product warranties);
- Carrying value of goodwill and fixed assets; and
- Going concern and viability.

These issues (which are considered in more detail below) were discussed with management during the year and with the external Auditors at the time the Committee reviewed and agreed the external Auditors' Group audit plan; when the external Auditors reviewed the half year results in August 2016; and also at the conclusion of the audit of the financial statements. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

Underlying profit

As further explained in note 7 to the financial statements, the Group reports non-trading income or expenditure outside of underlying profit when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of its financial position. The Committee challenged the items that were excluded from underlying profit and were satisfied that these were in accordance with the Group's disclosed accounting policy and gave a true and fair view of the Group's underlying financial position.

The Auditors explained to the Committee the work they had conducted and the results of their audit procedures on significant items recorded outside underlying profit. On the basis of their audit work, the Auditors reported no inconsistencies or misstatements to the Group's disclosed accounting policy that were material in the context of the financial statements as a whole.

Provisions

(i) Taxation

Provisions held in respect of tax risks are included within current and deferred tax liabilities depending on the underlying circumstances of the provision. Management confirmed to the Committee that the provisions recorded at 31 December 2016 represent their best estimate of the potential financial exposure faced by the Group. The Committee reviewed each significant provision and challenged the basis of management's judgement and concurred with the estimates.

The Auditors explained to the Committee the work they had conducted during the year, including how their audit procedures were focused on those provisions with the highest level of judgement on recognition criteria and/or measurement. On the basis of its audit work, the Auditors reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole.

(ii) Product warranty, legal and restructuring

As further explained in note 2 to the financial statements, a provision is recognised in the financial statements when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources, that can be reliably measured, will be required to meet the obligation.

Provisions are recognised at an amount equal to management's best estimate of the expenditure required to meet the Group's liability taking into account the time value of money, where this is considered material. On legal and contractual exposures, the Committee received periodic reports from the Group General Counsel & Company Secretary outlining the open legal and contractual disputes and best estimate of the expected costs associated with such matters.

Management has confirmed to the Committee that the provisions recorded at 31 December 2016 represent their best estimate of the potential financial exposure faced by the Group. The Committee reviewed each significant provision and challenged the basis of management's judgement and concurred with management's estimates.

The Auditors explained to the Committee the work they had conducted during the year, including how their audit procedures were focused on those provisions with the highest level of judgement on recognition criteria and/or measurement. On the basis of their audit work, the Auditors reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole.

Further information about the specific categories of provisions held by the Group is set out in note 18.

Carrying value of goodwill and fixed assets

As more fully explained in notes 12 and 13, the total carrying amount of goodwill is £106.5 million and fixed assets is £92.2 million as at 31 December 2016.

Management has assessed the carrying value of goodwill using detailed calculations of value in use for each significant cash generating unit and fixed assets where impairment indicators existed to ensure that the carrying values are supported by forecast future discounted cash flows. The Committee reviewed and challenged management's assessment of value in use, the basis of key assumptions and sensitivities as outlined in notes 12 and 13 and concurred with management's assessment. The Auditors explained to the Committee the results of their review of the estimate of value in use including their challenge of management's underlying cash flow projections, the key growth assumptions, discount rates and sensitivity analysis. On the basis of their audit work, no additional impairments that were material in the context of the financial statements as a whole were identified by the Auditors.

Going concern/Viability statement

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

Misstatements

Management has confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The external Auditors reported to the Committee the misstatements that they had found in the course of their work and that no material amounts remain unadjusted. The Committee confirms that it is satisfied that the external Auditors have fulfilled their responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from management and consulting where necessary with the Auditors, the Audit Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect of the amounts reported and the disclosures).

Fair, balanced and understandable

In accordance with the 2014 UK Corporate Governance Code, the Board requested that the Committee advise them on whether it believed that the Group's Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategic plan. Procedures are in place to facilitate the appropriate and timely review of the drafts of the Annual Report and specifically to highlight evidence of a fair and balanced representation, which supports input and challenge from all independent non-executive Directors, external auditors and other external advisers. On careful review of the Annual Report for the year ended 31 December 2016 and the basis for the statement made by the Board on "Fair, balanced and understandable" on pages 88 and 89, the Audit Committee recommended to the Board that, taken as a whole, the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategic plan.

Auditors' independence, objectivity and effectiveness

The independence of the Auditors is assessed annually by the Audit Committee in order to ensure that suitable policies and procedures are in place to safeguard the Auditors' independence and objectivity, having regard to length of tenure, provision of non-audit services and the existence of any conflicts of interest. KPMG were appointed in July 2010, at which time their independence had been considered. At the time of the latest annual assessment, the provision of non-audit services was reviewed, together with KPMG LLP's Transparency Report, and KPMG LLP confirmed that no conflicts of interest existed of which the Audit Committee should be aware.

The Committee has formally reviewed the independence of the Auditors as part of the 2016 review. KPMG LLP have provided a letter to the Committee confirming that they remain independent within the meaning of the regulations on this matter and in accordance with their professional standards.

The Committee also reviewed the effectiveness of the Auditors during the year. The use of an evaluation questionnaire and an auditor assessment survey (completed by heads of finance across the Group's operations), together with information provided by the Auditors, assisted in ensuring that a comprehensive assessment was undertaken. Areas for improvement were identified and communicated to the Auditors for action.

The Audit Committee has recommended to the Board that KPMG LLP continue in office as Auditors.

Policy on non-audit services

The Company has an established policy regarding the provision of non-audit services by external auditors. This states that non-audit services may be obtained from the most appropriate source having regard to expertise, availability, knowledge and cost. Non-audit services where fees are expected to exceed £25,000 should be approved, in advance, by the Chairman of the Audit Committee or in his absence by another member of the Audit Committee. There is also a restriction such that fees for non-audit services will not exceed those for audit services, paid to the same service provider for more than two consecutive years, unless specifically recommended by the Audit Committee and agreed by the Board. The overriding preference of the Committee is not to engage the Auditors for additional non-assurance services, unless there are compelling reasons to the contrary, such as capability, time or cost.

In 2016, audit service fees paid to KPMG LLP were £0.9 million, whilst non-audit service fees paid to KPMG totalled £0.3 million. This comprised non-audit service fees relating to taxation compliance advice (£0.1 million) and other advisory services of £0.2 million. During 2016, non-audit service fees paid to KPMG LLP represented 33 per cent of audit service fees paid to KPMG LLP during the same period, the same percentage as for 2015. The Committee believes that, for these particular areas, KPMG LLP were best placed to provide a comprehensive and effective service to the Company.

Performance evaluation

The Committee carried out an assessment of its performance in 2016 based on a review of its activities during the year against its terms of reference. It was concluded that the Committee had performed effectively and is structured appropriately to provide effective support to the Board. The Committee agreed that as the Group pursued its growth agenda pursuant to the strategy set by the Board, it would be important to ensure that continued attention was focused on the Group's key risks (and the risk management strategies put in place across the business units to address them). In addition, it was agreed that the outsourced Internal Audit arrangement was working positively, but additional focus was required to ensure that KPMG gained a closer working understanding of the Controls Framework project and the wider Internal Audit programme managed by PwC.

Stephen King
Chairman, Audit Committee

Alison Wood
Chairman,
Remuneration Committee

Membership:
Alison Wood (Chairman), Michael Baunton, Jack Boyer, Neil Carson

Committee meeting attendance 2016	Meetings attended	Potential meetings
Alison Wood	1	1
Michael Baunton	4	4
Jack Boyer	1	1
Neil Carson	3	4
John Shakeshaft	3	3

Annual statement
Dear Shareholder

On behalf of the Board, I am pleased to introduce the Directors' remuneration report for the year ended 31 December 2016, having been appointed the Remuneration Committee Chairman on 31 August 2016.

Context and business performance

2016 was a successful year for TT. Although we have faced a number of macro-economic challenges, it has been a year of strong strategic and financial progress. We have stabilised the Group, been focused with our resources and clear in our strategy; we are starting to see the benefits of the efforts we have made.

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

- Profit Before Tax was £23.2 million, up by 37% at constant currency
- Free Cash Flow was £13.8 million, up from £5.1 million
- Underlying EPS was 12.0p, up by 36%

As well as the strong financial performance achieved, we have made good progress with our strategy and our focus on operational excellence. We have completed the successful integration of Aero Stanrew into the business and it is contributing in line with expectations. We have continued to focus on our customers, establishing a sales council to increase revenue opportunities as 'One TT' while facilitating collaboration across our divisions. We have prioritised our R&D investment, deploying a new R&D management framework. Our operational efficiency actions have started to show significant improvements and we have taken sensible steps to improve our procurement practices. Finally, we have maintained our commitment to our people, culture and engagement. This has resulted in clear progress in our zero harm safety measures. Our employees continue to manage and prioritise health and safety, and 2016 saw a 55% improvement in safety performance over the year.

Pay for performance outcomes

Given the significant improvement in results for the year and having met or exceeded all our stretch targets, the Committee agreed the following outcomes:

- Base salaries for the Group CEO and CFO were increased by 2.5% on 1 January 2017, the same as theaverage for UK employees.
- Annual bonus payment made in full at 100% of base salary for the Group CEO and CFO, following the achievement of stretching performance measures. Neither the Group CEO or CFO had any awards under the LTIP that vested during 2016.

Key decisions made during the year

The Remuneration Committee carefully considers every decision around executive remuneration. Principal areas covered during the year included:

- assessment of annual bonus levels for executive Directors for 2015, payable in 2016;
- evaluation of vesting of 2013 award under the LTIP (EPS and TSR underpins were not achieved) and Restricted Share Plan (RSP);
- grant of the 2016 award under the LTIP (including a review of performance targets and implementation of an additional two-year post-vesting holding period for future LTIP awards for executive Directors);
- review of total remuneration levels for executive Directors and the next level of senior executives;
- review of the linkage between risk and reward in relation to remuneration structure;
- evaluation of targets for the executive Directors' 2017 annual bonus plan, based on current and stretch performance targets for the business together with broker consensus forecasts;
- review of executive remuneration and development of new policy, including consultation with major shareholders;
- review of the Committee's independent remuneration adviser and appointment of Deloitte.

Remuneration framework for 2017

In the 2016 Directors' remuneration report, the Committee's stated intention was to undertake a review of our Directors' Remuneration Policy to ensure future arrangements continue to closely align to TT's long-term strategy and deliver value to shareholders and other key stakeholders. Our current Remuneration Policy was approved by shareholders in May 2014 and, in accordance with the three-year timeframe required by legislation, we will seek shareholder approval for a new Remuneration Policy at the 2017 AGM.

In order to ensure that the Policy remains 'fit for purpose', the Remuneration Committee has undertaken a review that took into account the Company's evolving strategy, market practice and general governance developments, including the 2016 report from the Executive Remuneration Working Group of the Investment Association.

Following that review, the Remuneration Committee has concluded that the structure of the remuneration framework in our current Policy remains 'fit for purpose' and, as a result, no fundamental changes are proposed in the new Remuneration Policy.

However, in order to further align executive and shareholder interests, the new Remuneration Policy does contain some changes from the current Policy that principally respond to comments we have received from shareholders and general governance developments. There are no plans to change the overall package design for awards in 2017 and the traditional incentive design continues to remain appropriate.

In January 2017, we wrote to our major institutional investors plus ISS and IVIS on three key proposed changes which are outlined below.

- It is proposed that the executive Directors' minimum shareholding requirement is increased from the current 100% of salary to 200% of salary to reflect current governance guidelines. The Committee recognises that the executives will not meet this immediately but that it will occur over a reasonable time period.
- In 2016, a two-year holding period post the three-year performance period was introduced for executive Director LTIP awards, taking the total vesting period for awards to five years to reflect current governance guidelines. The two-year holding period for LTIP awards will now be formally adopted within the new Remuneration Policy.
- Under the current Remuneration Policy, LTIP awards are subject to a 100% of salary normal limit and a 200% of salary exceptional limit. Grants in the past two years have been over shares worth 200% of salary (2015)/125% of salary (2016) to the CEO and 150% of salary (2015)/100% of salary (2016) to the CFO. Following shareholder feedback, the Remuneration Committee proposes to amend the new Remuneration Policy by replacing the two existing LTIP award limits with a single annual LTIP limit of 150% of salary that reflects competitive practice in the markets in which we operate and which provides flexibility for the three-year life of the new Policy. The concept of an exceptional limit would therefore be removed in the new Policy. The Committee will continue to use its discretion and judgement to grant appropriate future award levels within this new single limit. It is intended that the executive Director LTIP awards, to be made in March 2017, will be in line with the 100% of salary normal limit of the current Remuneration Policy.

The above changes require alterations to the rules of the 2014 LTIP and accordingly there will be a separate shareholder resolution at the 2017 AGM to approve the changes.

In addition, in 2017, the Remuneration Committee will oversee the introduction of gender pay reporting in line with best practice and will continue to monitor general trends in the remuneration of the TT workforce to review alignment and consistency with executive rewards.

Other matters

In addition to the shareholder vote on amendments to the 2014 LTIP, there will be two other remuneration-related votes at the 2017 AGM:

- the Directors' Annual Remuneration Report on pages 76 to 83 contains details of pay received by Directors in 2016 and full details of how we intend to implement our pay policy during 2017. The Directors' Annual Remuneration Report will be subject to an advisory vote.
- the Directors Remuneration Policy on pages 64 to 75 will be subject to a binding shareholder vote and will apply from 12 May 2017, subject to shareholder approval.

Jack Boyer joined the Committee on 7 July 2016 and brings considerable experience that further enhances the Committee.

As the Company proceeds through a period of change, the Committee, working with management, will continue to align incentive arrangements with TT's strategy, business results and market demands. As always, we value your views as shareholders as part of this process. If you would like to discuss any further aspect of our remuneration strategy I would welcome your views. I can be contacted at alison.wood@ttelectronics.com.

Alison Wood
Chairman, Remuneration Committee

In order to continue to ensure remuneration remains aligned with the evolving strategy of the Group, the Committee has determined that it is appropriate to make minor revisions to the existing Remuneration Policy which was approved by shareholders at the 2014 AGM. The Policy in the following pages sets out the new Remuneration Policy that we intend to apply, subject to shareholder approval on 12 May 2017.

Executive Directors' remuneration

The Remuneration Committee believe that the remuneration arrangements should be aligned with the executives' underlying commitment to act in the best interests of maximising sustainable long-term shareholder value creation, whilst ensuring that behaviours remain consistent with the governance and values of the business.

Key objectives

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

- to attract, retain and motivate high calibre executives in a challenging and competitive business environment;
- that delivers an appropriate balance between fixed and variable compensation for each executive;
- that places a strong emphasis on performance, both short and long-term;
- strongly aligned to the achievement of strategic objectives and the delivery of sustainable value to shareholders; and
- that seeks to avoid creating excessive risks in the achievement of performance targets.

Remuneration principles

Following a review of the current and proposed Remuneration Policy for executive Directors and senior managers, the Committee concluded that the following principles remain appropriate for 2017.

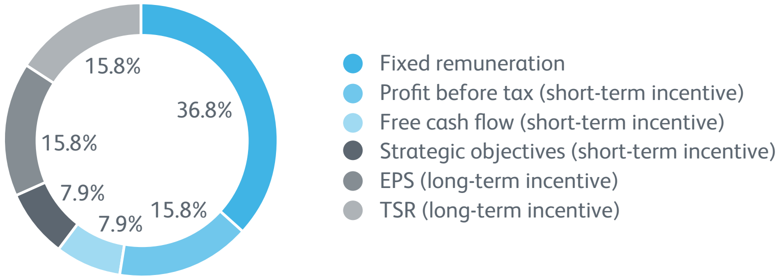
Transparency: in order to engender a fair and collaborative culture, total remuneration frameworks should be clear and openly communicated.

Competitive: through a combination of base salaries and competitive performance-related incentive schemes, the Committee aims to provide competitive total remuneration in return for superior performance. Base salaries are designed to reflect the requirements of the role and responsibility, together with the overall level of individual performance. In ascertaining the appropriate level of base salary, account is also taken of prevailing market and economic conditions together with salary levels across the Group.

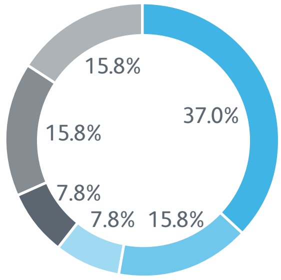
Performance-related: the majority of the executive and senior manager remuneration packages should be determined based on the performance of the Group. A significant proportion of this is aligned with shareholder interests, based on earnings growth (EPS) and total shareholder return (TSR). Failure to reach set performance thresholds leads to no pay-out under the Group's short-term or long-term incentive arrangements.

The remuneration KPI's complement the strategic KPI's on pages 22 and 23 of the report. The proportion of fixed remuneration and the variable components, coupled with the respective KPI is laid out below. The short-term and long-term components reflect the maximum potential opportunity. The long-term component is the intended face value of the 2017 LTIP award.

Richard Tyson (2017)



Mark Hoad (2017)



Remuneration KPI	Incentive link
Profit before tax	Short-term incentive primary financial measure
Free cash flow	Short-term incentive secondary financial measure
Strategic objectives	Short-term incentive strategic milestones
Earnings per share	Long-term incentive EPS measure
Total shareholder return	Long-term incentive TSR measure

Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received in connection with the Annual General Meeting each year at a meeting immediately following the AGM and at other times of the year. This feedback is considered as part of the Company's annual review of Remuneration Policy. In addition, the Remuneration Committee engages directly with major shareholders and their representative bodies on the proposals for material changes to the Remuneration Policy. Details of votes cast for and against the resolution to approve last year's remuneration report and any matters discussed with shareholders during the year are set out in the Directors' Annual Remuneration Report.

Remuneration Policy table

The table below sets out the new Remuneration Policy that the Committee intends to apply to executive Directors' remuneration, subject to shareholder approval, from the date of the AGM. The Policy table includes the changes outlined in the Annual Statement and a number of minor changes to reflect general governance developments and best practice.

Element of remuneration	Purpose and link to strategy	Operation
Salary Core element of remuneration. Competitive salaries should attract and retain the best talent.	The committee considers a number of factors in setting salaries, including but not limited to: – broader Company policy applied to all employees; – scope of the individual and their performance; – competitiveness compared to companies of similar complexity, sector and size; – ensuring it provides an appropriate level of basic fixed income and avoids excessive risk arising from over reliance on variable income; – general external factors such as inflation.	Paid in cash Normally reviewed annually, effective 1 January.
Pension Provides a market competitive level of provision for post-retirement.	The Company contributions may be made into a pension scheme or as a salary supplement.	Contributions are set as a percentage of base salary only.
Benefits Provides market competitive benefits at an appropriate cost.	To aid retention and recruitment the Company offers a range of cash and benefits in kind to executive Directors.	Executive Directors are eligible to receive benefits, which typically may include (but are not limited to): – cash allowance in lieu of company car allowance; – the provision of private health and medical insurance, – health screening; – life assurance; – income protection and critical illness cover. Where executive Directors are required to relocate, the Committee may offer relocation and if appropriate, additional expatriate benefits. These may include but are not limited to, removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation.

Maximum	Performance targets
There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population although larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary. Current base salary levels are set out in the Directors' Annual Remuneration Report.	Not applicable, although overall performance is taken into account during the salary review.
Company contributes up to 15% of base salary.	Not applicable.
There is no overall maximum as the level of benefits depends on the annual cost of providing individual items in the relevant local market and the individual's specific role: – the provision of benefits is reviewed on an annual basis to ensure appropriateness in terms of type and level; – the Committee retains flexibility to add or remove benefits from the stated list if it considers it appropriate and reasonable; – benefit provision will not exceed what the Committee reasonably considers to be a market competitive level.	Not applicable.

Remuneration Policy table continued

Element of remuneration	Purpose and link to strategy	Operation
Short-term Incentive Plan To incentivise the delivery of annual targets aligned to corporate strategy and reward delivery of stretch performance.	Incentivises annual delivery of financial and strategic goals. Maximum short-term incentive only payable for achieving stretch performance targets.	Paid in cash, not pensionable. Short-term incentive payments may be partially repaid or fully clawed back to the Company if any material profit, cash flow or accounting irregularities are identified after payment has been made to the extent that such errors or irregularities would have affected the short-term incentive payable.
Long-term Incentive Plan Rewards longer-term value creation, aligns executive Directors' interests with those of shareholders and aids retention of senior managers.	Aligned to main strategic objectives of delivering sustainable profit growth and shareholder return.	Annual grant of nil cost options or performance shares which normally vest after three years, subject to continued service and the achievement of stretching performance targets measured over three years. At the Committee's discretion, there may be a single target range to be met at the end of the three-year period or annual target ranges to be met throughout the three-year period. It is a requirement of the LTIP that net vested shares are held for a further two years following the vesting date. Malus provisions apply during the three-year performance period. Clawback provisions apply during the two-year holding period.
All-employee Share Plans Allows employees (including executive Directors) the opportunity to invest personally in the Group and share in its success.	To encourage employee share ownership and therefore increase alignment with shareholders.	A number of all-employee share plans are operated across the Group. Executives are entitled to participate in all-employee share plans on the same terms as all other eligible employees. For eligible UK, German and Austrian-based employees the Sharesave plans offer a three-year savings period, with up to a 20% discount to the market value of the shares at the point of grant. For eligible US-based employees, the Employee Share Purchase Plan offers an opportunity to purchase shares each quarter, with a 15% discount to the market value of the shares at the point of purchase.
Share Ownership Guidelines	To provide alignment between executives and shareholders.	Executive Directors are required to build and maintain a shareholding equivalent to 200% of base salary.

Maximum	Performance targets
The maximum potential is 100% of base salary in respect of any financial year.	The Committee considers annual performance targets taking into account the Group strategy and corporate plan. Targets will provide a balance between profit, cash and other strategic goals to drive long-term sustainable returns. The specific measures and weighting are reviewed on an annual basis to ensure alignment with strategy and budgets. Specific performance measures will be included in the relevant year's Annual Report. At least 75% of the short-term incentive will be based on the achievement of Group Financial targets. Target ranges and payout schedules are determined annually by the Committee within the maximum short-term incentive potential. The Committee exercises its judgement on the level of short-term incentive payable for outcomes short of maximum to ensure alignment of pay with performance and with shareholder interests.
The maximum face value of an award which may be granted under the plan in any year is up to 150% of base salary for the executive Directors. Dividend equivalents are payable in respect of the shares which vest. The amount that is paid out for achievement of threshold performance is 25% of the maximum. The minimum vesting is 0%.	Awards vest based on a variety of financial and/or shareholder value creation measures. LTIP performance is currently measured over three years based on financial (e.g. EPS) and/or share price measures (e.g. relative TSR). If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee. The targets for the performance period are reviewed at the start of each award cycle to ensure alignment to strategy.
In-line with prevailing legislative limits.	Not applicable.
Not applicable.	Not applicable.

Remuneration Policy table continued

Element of remuneration	Purpose and link to strategy	Operation
Non-executive Director (NED) fees To attract NEDs who have a broad range of skills and experience to oversee the implementation of strategy.	Reflects time commitments and responsibilities of each role. Reflects fees paid by similarly sized companies.	NED's receive a basic fee paid monthly in respect of their Board duties. Further fees are paid in respect of Board committee chairmanships and the role of Senior Independent Director. No additional fees are payable for membership of a Board committee. The non-executive Chairman receives an all-inclusive fee for fulfilling the role. The fee of the non-executive Chairman is set by the Committee. The Chairman and executive Directors are responsible for determining NED fees. Fees are normally reviewed annually. Non-executives will be reimbursed for business expenses (grossed up for tax where appropriate) relating to the performance of their duties including travel, accommodation and subsistence.

Notes to Remuneration Policy table:

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before AGM 2014 (the date the Company's first shareholder-approved directors' Remuneration Policy came into effect); (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Performance measures and targets

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

Discretion

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

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

Remuneration arrangements throughout the Group

Remuneration arrangements for the wider employee population are based on the principle that reward should help deliver the business strategy and should be sufficient to attract and retain talent. To the extent practicable, reward practices for executive Directors are cascaded down the organisation, such that employees are aligned towards common goals.

Maximum	Performance targets
Current fee levels can be found in the Directors' Annual Remuneration Report on page 76. Fees are set at levels to attract and retain the right calibre of individual and are positioned with reference to comparable companies.	Not applicable. Non-executive Directors do not participate in variable pay arrangements.

The Group operates in a number of different geographic territories and has many employees who carry out a range of diverse roles. The remuneration of all employees, including executives, are set to be competitive in the relevant market for that role. The ratio between fixed and variable pay for employees differs by level, geographic location and division. A number of performance-related schemes operate across the Group which differ in terms of structure and metrics from those applying to executives.

The Group also offers a number of all-employee share schemes in the UK, Germany, Austria and North America and executives participate on the same basis as other eligible employees.

Policy updates

Following a review of the operation of the Remuneration Policy for the executive Directors and the Company's evolving strategy, market practice and general governance developments, the Committee proposed a number of changes to the Policy table. The Committee wrote to ISS, IVIS and the Company's ten largest shareholders on the changes to the LTIP, the inclusion of the two-year post-vesting holding period and the increase to the executive share ownership guideline. A number of shareholders responded to the consultation; all responses were supportive of the proposed key changes outlined.

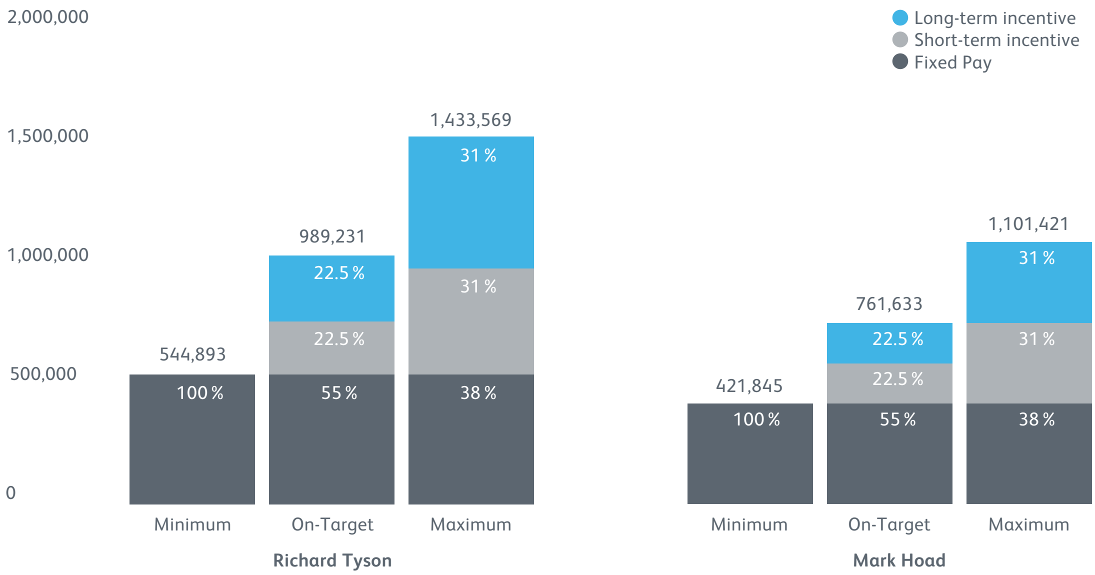
Following consultation, the Remuneration Policy includes the following updates proposed by the Committee:

(1) Removal in the LTIP section of the 100% of salary normal award limit and the discretion to award grants up to 200% of salary in exceptional circumstances. Replaced by a single limit to provide LTIP grants up to 150% of salary. Clawback and Malus provisions have been included along with the predetermined performance thresholds and associated vesting levels.
(2) Addition to the Policy of a two-year post-vesting holding period to LTIP awards. The holding period was introduced from the 2016 awards onwards.
(3) Executive Director share ownership guidelines have been increased from 100% of base salary to 200% of base salary to support a longer term focus on creation of shareholder value.
(4) Context of base salary setting has been clarified.
(5) Benefit provision has been updated to include further details relating to insurances such as income protection and critical illness together with health screening. Provision of relocation and expatriate benefits has been included where required.
(6) Predetermined performance thresholds and associated payment levels have been added to the short-term incentive plan (previously referred to as the 'annual bonus'). Forfeiture and adjustment provisions have also been included. The performance target wording has been updated to provide greater flexibility to the Committee to ensure the setting of appropriate targets for executives as the Company's strategy evolves.
(7) The definition of all employee-share schemes has been expanded to include schemes run for German, Austrian and US-based employees.
(8) The fee structure applicable to non-executive Directors has been added along with the approach to business expenses.
(9) The updated Policy clarifies the discretion of the Committee to make appropriate remuneration decisions outside the standard Policy in the exceptional circumstances when the Chairman or a non-executive Director or an interim appointment takes on an executive Director role on a short-term basis.
(10) The updated Policy clarifies payments that can be made in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment.

The changes to the LTIP outlined above are subject to a separate shareholder vote at the 2017 AGM. In the event that this resolution is not passed, the LTIP provisions outlined in the Policy table of the existing Remuneration Policy (as approved at the 2014 AGM) would apply in place of the LTIP provisions outlined in the above Policy table.

Illustrations of application of Remuneration Policy

The remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of short-term and long-term goals that are aligned with our short-term and long-term strategic objectives and the creation of shareholder value. The Committee considers the level of remuneration that may pay out in different performance scenarios, to ensure that this is considered appropriate in the context of the performance delivered and the value added for shareholders. The charts below indicate the minimum, on-target and maximum remuneration that could be received by each executive, excluding share price movements and dividends, under the proposed new Remuneration Policy.



Performance Scenarios

Maximum award opportunities (% of salary)	CEO	CFO
Short-term incentive	100%	100%
Long-term incentive	100%	100%
Minimum performance	No short-term incentive payout No vesting under the long-term incentive plan	
On-target performance	50% short-term incentive payout 50% vesting under the long-term incentive plan	
Maximum performance	100% short-term incentive payout 100% vesting under the long-term incentive plan	

Fixed pay is the base salary at 1 January 2017, together with pension and benefits received in 2016 (as calculated under the Single Total Figure of Remuneration). The long-term incentive is the intended LTIP awards to be made in March 2017.

Recruitment Policy

When considering the recruitment of a new executive in respect of all elements of remuneration the Committee will apply the prevailing Remuneration Policy at the time of appointment.

Salary would be provided at such a level as is required to attract the most appropriate candidate and may be set initially below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance have been proven and sustained. Short-term incentive potential will be limited to 100% of salary and long-term incentives will be limited up to 150% of salary. In certain circumstances, the performance measures associated with these awards, in the year of joining, may be granted with different measures and/or targets to the other Directors.

The policy for the recruitment of executives during the policy period includes the opportunity to provide a level of compensation for forfeiture of short-term incentive entitlements and/or unvested long-term incentive awards from an existing employer, if any, and the additional provision of benefits in kind, pension and other allowances, as may be required in order to achieve a successful recruitment when the Committee considers these to be in the best interests of the Company and shareholders. The overriding principle will be that any replacement buy out award should be of comparable commercial value to the terms, incentives and other compensation which have been forfeited. If required, any such buy-out award may be granted under an arrangement sanctioned by the Listing Rules exemption 9.4.2.

For an internal executive Director appointment or a new Director following acquisition or merger, any variable pay element awarded in respect of their prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee retains discretion to make appropriate remuneration decisions outside the standard Policy to meet the individual circumstances of recruitment when:

- an interim appointment is made to fill an executive Director role on a short-term basis; or
- exceptional circumstances require that the Chairman or a non-executive Director takes on an executive function on a short-term basis.

In the event that a non-executive Director takes on an executive role for a temporary period, the non-executive Director will be remunerated in line with the prevailing executive Director Remuneration Policy table at the time of the temporary appointment.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate.

If appropriate, on the recruitment of a new executive, the Committee may agree to an initial notice period in excess of 12 months, reducing to 12 months over a specified period.

The policy on the recruitment of new non-executive Directors during the policy period would be to apply the same remuneration elements as for the existing non-executives. It is not intended that variable pay, day rates or benefits in kind be offered, although in exceptional circumstances such remuneration may be required in currently unforeseen circumstances. The Committee will include in future Remuneration reports details of the implementation of the Policy as utilised during the Policy period in respect of any such recruitment to the Board.

Service contracts

The Remuneration Committee reviews the contractual terms for new executive Directors to ensure these reflect best practice. A summary of the key terms of the executive Directors service contracts is set out below:

Provision	Detailed terms
Notice period	12 months by the Company and employee
Base salary	Normally, reviewed annually but with no obligation for it to be increased
Remuneration entitlements	A short-term incentive may be payable (pro-rata where relevant) and outstanding share awards may vest (see below)
Change of control	No executive Directors' contract contains additional provisions in respect of change of control
Termination payment	Common law and contractual principles apply
Non-competition clause	6 months

Executive Directors may accept outside appointments, with prior Board approval, provided these opportunities do not negatively impact on the individual's ability to perform their duties at the Company. Whether any related fees are retained by the executive Director or are remitted to the Company will be determined on a case by case basis.

The Chairman and non-executive Directors do not have service contracts but have letters of appointment with the Company. The Chairman and non-executive Directors have notice periods of one month and three months respectively.

Loss of office policy

The Committee takes into account a number of factors when considering leaving arrangements for an executive Director.

- Where an individual resigns or is dismissed for gross misconduct, they will receive no payment for loss of office.
- Where the individual is dismissed for performance, capability or any other substantial reason, they will receive no more than their statutory/contractual entitlements. The contractual entitlement makes provision, at the Board's discretion, for early termination by way of payment of base salary in lieu of 12 months' notice. In calculating the amount payable to a Director on termination of employment, the Board would take into account the commercial interests of the Company and apply usual common law and contractual principles.
- Individuals will not normally be eligible to receive a short-term incentive if on the date the short-term incentive is declared they are no longer employed by the Company, or have received or given notice to leave the Group for any reason whatsoever on or before the payment date. Where the Committee considers the individual to be a 'good leaver', in some exceptional circumstances it may consider the individual eligible for benefits and a time-based pro-rated short-term incentive, determined against the relevant performance conditions and paid at the normal payment date. In determining the level of short-term incentive to be paid, the Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Committee.
- The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

Treatment of outstanding share awards for an award holder following cessation of employment, change of control or other corporate events is governed by the share plan rules. The default treatment under the LTIP is that any outstanding awards lapse on the cessation of employment. However, in certain circumstances, such as death, disability, redundancy, retirement, sale or transfer of employer or other circumstances at the discretion of the Committee, 'good leaver' status may be applied. For good leavers, awards will normally vest on the normal vesting date, subject to the satisfaction of the relevant performance conditions, and reduced pro-rata to reflect the proportion of the vesting period actually served. However, the Remuneration Committee has discretion to determine that awards vest at cessation (e.g. death) and/or to disapply time-based pro-rating. Following a change of control, and unless participants agree with the acquiring company to rollover their awards, awards will vest subject to the satisfaction of the relevant performance conditions, and be reduced pro-rata to reflect the proportion of the vesting period actually served. However, the Remuneration Committee has discretion to disapply pro-rating.

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

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2017 is set out below.

Basic salary and benefits

The Remuneration Committee agreed to increase executive Director base salary levels with effect from 1 January 2017 broadly in line with the general workforce. Current base salary levels and those applied during the year ended 31 December 2016 are as follows:

Executive	2017	2016	% increase
Richard Tyson	**£444,338**	£433,500	2.5%
Mark Hoad	**£339,788**	£331,500	2.5%

The Group's UK employees, in general, are receiving pay rises averaging 2.5% depending on location, promotional increases and individual performance.

Pension arrangements

The company contributed 15% of salary either to a defined contribution arrangement and/or as a salary supplement for each executive Director. The Committee believe that the pension arrangements are acceptable and appropriate, being broadly market competitive.

Short-term incentive plan

The maximum bonus potential for the year ending 31 December 2017 will remain at 100% of salary for executive Directors. The split of targets continues to be based on the Group's financial results, being Group Underlying Profit Before Tax (up to 50% of salary), Group Free Cash Flow (up to 25% of salary) and strategic objectives (up to 25% of salary) as set at the beginning of the 2016 financial year. Specific targets relating to these objectives are considered commercially sensitive for the 2017 financial year and are expected to be disclosed in the 2017 Annual Report and Accounts.

Long-term incentive plan

It is intended that LTIP awards will be made in March 2017, whereby the executive Directors will be granted awards in line with the 100% of salary normal limit of the existing Remuneration Policy. The awards will vest on the third anniversary of grant to the extent the performance targets have been satisfied, followed by a two-year holding period.

As in 2016, the performance targets will be based on Earnings per Share (EPS) and Total Shareholder Return (TSR). 50% of the award will be based on the Group's EPS performance targets for the year ending 31 December 2019. 25% of the shares subject to this part of the award will vest for EPS growth of 5% compound per annum, increasing on a straight-line basis to 100% vesting for EPS growth for the year ending 31 December 2019 of 12% compound per annum.

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

The performance measures chosen ensure the alignment of senior management's and shareholders' interests. The target ranges for the 2017 awards have been set taking into account the latest internal and external forecast for the business including economic and political uncertainty. The Committee is satisfied that the proposed target range is suitably challenging.

Non-executive Directors

The Company's approach to non-executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the Chairmanship of Board Committees. A summary of current fees is as follows:

	2017	2016	% increase
Chairman	**£179,375**	£175,000	2.5%
Base fee	**£42,970**	£41,922	2.5%
Additional fees:			
Senior Independent Director	**£5,000**	n/a	n/a
Audit Committee Chair	**£7,000**	£7,000	0.0%
Remuneration Committee Chair	**£7,000**	£7,000	0.0%

Implementation of the Remuneration Policy for the year ending 31 December 2016

Single figure for total remuneration (audited)

Directors' remuneration for the year ended 31 December 2016 was as follows:

£'000		Salary/fees[1]	Taxable Benefits[2]	Pension[3]	Short-term incentive[4]	Long-term incentive[5]	Other[6]	Total
Executive Directors								
Richard Tyson	**2016**	**434**	**21**	**65**	**434**	**–**	**198**	**1,152**
	2015	425	21	64	386	–	255	1,151
Mark Hood	**2016**	**332**	**18**	**50**	**332**	**–**	**–**	**732**
	2015	325	16	49	295	–	–	685
Chairman								
Neil Carson[(a)]	**2016**	**175**	**–**	**–**	**–**	**–**	**–**	**175**
	2015	111	–	–	–	–	–	111
Non-Executive Directors								
Michael Baunton	**2016**	**42**						**42**
	2015	41						41
Stephen King	**2016**	**49**						**49**
	2015	48						48
Jack Boyer[(b)]	**2016**	**23**						**23**
	2015	–						–
Alison Wood[(c)]	**2016**	**22**						**22**
	2015	–						–
Former Directors								
John Shakeshaft[(d)]	**2016**	**32**						**32**
	2015	48						48

(a) Neil Carson was appointed as Chairman on 13 May 2015.
(b) Jack Boyer was appointed as a non-executive Director on 10 June 2016.
(c) Alison Wood was appointed as a non-executive Director on 11 July 2016 and appointed as Remuneration Committee Chair on 31 August 2016.
(d) John Shakeshaft resigned on 31 August 2016.

1. Base salary/fees

Base salaries for executive Directors were reviewed in December 2015 and were increased by 2% with effect from 1 January 2016.

Base fees for non-executives were reviewed in January 2016 and were increased by 2% with effect from 1 January 2016. No changes were made to the fees for the Chairman or the Chairmanship of Board Committees. No fee was payable in 2016 in respect of the Senior Independent Director.

2. Taxable benefits

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

3. Pensions

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

4. Short-term incentive

The short-term incentive payments represented in the table above were based on performance against Group Profit Before Tax (up to 50% of salary), Group Free Cash Flow (up to 25% of salary) and strategic objectives (up to 25% of salary) as measured over the 2016 financial year.

Based on the Committee's assessment of achievement for both the financial and strategic objectives, the short-term incentive was calculated as follows:

Short-term incentive payments for 2016

Performance measure	Threshold potential (% of salary)	Potential (% of salary)	Required for threshold bonus (£m)	Required for maximum bonus (£m)	Out-turn for incentive plan purposes (£m)	Actual payout (% of salary)
Group Underlying Profit Before Tax	5%	50%	20.4	23.1	23.6	50%
Group Free Cash Flow	2.5%	25%	(3.6)	2.5	2.8	25%
Strategic objectives	n/a	25%			See note 1	25%
Total (% of salary)		100%				100%

(1) The Committee agreed common strategic objectives for the executive Directors. Each objective was weighted and covered items such as the successful conclusion and integration of the acquisition of Aero Stanrew, driving improvement in the visibility of current and future revenue streams within the Transportation Sensing and Control division, prioritising our R&D investment and improving our debt position from pre-agreed budget levels during the year. The Remuneration Committee carried out a thorough review of the achievement of strategic objectives. The Remuneration Committee also considered whether the outturn performance reflects the overall performance of the Group and believe the awards outlined above are appropriate.

5. Long-term incentive

The long-term incentive amount shown relates to the award granted to Richard Tyson on 22 August 2014. Vesting is due to take place on 22 August 2017 and is subject to two performance conditions each measured over three-year periods. 50% of the award is based on EPS growth performance targets in excess of the Retail Price Index (RPI) for the three-years up to 31 December 2016. 50% of the award is based on TSR performance against the FTSE SmallCap (excluding Investment Trusts) for the three-year period ending 9 May 2017.

As the EPS performance period ended in 2016, an estimate of the vested value of the EPS element of this award is included in the 2016 single figure for compliance with Companies Act regulations. The vested value of the TSR element of this award will be included in the 2017 single figure because the TSR performance period ends in 2017.

The performance achieved against the EPS target is as follows:

2014 award performance measure	Threshold (25% vesting)	Maximum (100% vesting)	Outcome	Percentage of maximum achievement
Annual compound growth in EPS in excess of RPI	7%	12%	<7%	0%

Accordingly no shares will vest from the EPS component of the award.

6. Other

The amount shown relates to the second and final tranche of the award granted to Richard Tyson on 22 August 2014, the first tranche vested on 27 April 2015 . The award, in accordance with Listing Rule 9.4.2 (2), was made in recognition of the loss of forfeited awards from his former employer. The award was subject to continuing employment with the Company on the relevant vesting dates, and typical good leaver/change of control provisions. On 27 April 2016, a proportion of the share award granted on 22 August 2014 to Richard Tyson vested. The value of the proportion vesting in 2016 was £198,487 and included dividend equivalents.
The number of shares transferred post-tax and national insurance was 66,095.

Long-term incentives granted during the year (audited)

On 16 March 2016, the following LTIP awards were granted to executive Directors. Awards are subject to a three-year vesting period plus an additional two-year holding period.

Executive	Basis of award granted (% of salary)	Share price at date of grant (pence)[1]	Number of shares over which award was granted	Face value of award (£)	% of face value that would vest at threshold performance	Performance period end date
Richard Tyson	125%	158.6	341,661	541,875	25%	16/03/2019
Mark Hoad	100%	158.6	209,016	331,500	25%	16/03/2019

(1) The share price used to determine the number of shares to be granted was the average share price over the last four trading days prior to grant.

Awards to executive Directors during 2016 will be subject to performance measures on the following basis:

EPS

The performance target attached to 50% of the award is based on the Group's Earnings per Share (EPS) performance targets for the year ending 31 December 2018. 25% of the shares subject to this part of the award will vest for EPS growth of 7.7% compound per annum, increasing on a straight-line basis to 100% vesting for EPS growth for the year ending 31 December 2018 of 14.5% compound per annum.

TSR

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

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

Outstanding share awards

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

At 31 December 2016, Directors' interests under the LTIP were as follows:

Executive	Date of grant	1 January 2016	Granted during the year	Lapsed	Vested	31 December 2016	Market value at 31 December 2016 (£)[1]	Market price at grant date (pence)	Vesting date
Richard Tyson	22/08/2014	223,214[2]				223,214	363,839	171	22/08/2017
	18/03/2015	680,000[4]				680,000	1,108,400	125	18/03/2018
	16/03/2016		341,661[5]			341,661	556,907	159	16/03/2019
Total						**1,224,875**	**2,029,146**		
Mark Hoad	29/12/2014	330,452[3]				330,452	538,637	101	01/01/2018
	18/03/2015	390,000[4]				390,000	635,700	125	18/03/2018
	16/03/2016		209,016[5]			209,016	340,696	159	16/03/2019
Total						**929,468**	**1,515,033**		

(1) The market value at 31 December 2016 represents the total number of shares awarded multiplied by 163.0 pence, being the share price on 31 December 2016. The calculation does not take into account the likelihood of vesting.

(2) In 2014, as previously disclosed, Richard Tyson received an LTIP allocation. The performance target attached to 50% of the award is based on EPS. 25% of the shares subject to this part of the award will vest if the Company's EPS growth for the financial year ended 31 December 2016 is in excess of RPI by 7% per annum, increasing on a straight-line basis to 100% vesting if EPS growth is in excess of RPI by 12% per annum. The performance target attached to the other 50% of the award is based on TSR performance against the FTSE SmallCap (excluding Investment Trusts). 25% of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100% vesting at the upper quartile of the comparator group.

(3) This award will vest on 1 January 2018, subject to achievement of a three-year performance condition ending 31 December 2017, based on TSR performance against the FTSE SmallCap (excluding Investment Trusts). 25% of the shares subject to this award will vest at median performance increasing on a straight-line basis to 100% vesting at the upper quartile of the comparator group.

(4) The performance target attached to 50% of the award was based on EPS. 16.7% of the shares subject to this part of the award will vest for the Company's EPS for the financial year ended 31 December 2017 of 10.0 pence, increasing on a straight-line basis to 66.7% vesting for EPS of 11.5 pence, increasing on a straight-line basis to 100% vesting for EPS of 12.4 pence. The performance target attached to the other 50% of the award is based on TSR performance against the FTSE SmallCap (excluding Investment Trusts). 16.7% of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100% vesting at the upper quartile of the comparator group.

(5) The performance target attached to 50% of the award is based on EPS. 25% of the shares subject to this part of the award will vest for EPS growth of 7.7% compound per annum, increasing on a straight-line basis to 100% vesting for EPS growth for the year ending 31 December 2018 of 14.5% compound per annum. The performance target attached to the other 50% of the award is based on TSR performance against the FTSE SmallCap (excluding Investment Trusts) during the three-year performance period from the date of award. 25% of the shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100% vesting at the upper quartile of the comparator group.

TT Electronics plc Sharesave scheme

Executive	Date of grant	1 January 2016	Granted during the year	Lapsed	Exercised	31 December 2016	Potential gain at 31 December 2016 (£)[1]	Option price (pence)	Exercisable between/ exercised on
Richard Tyson	22/09/2015	13,740				13,740	4,397	131	11/11/2018 – 30/04/2019
Mark Hoad	22/09/2015	13,740				13,740	4,397	131	11/11/2018 – 30/04/2019

(1) The potential gain at 31 December 2016 represents the total number of shares under option multiplied by 163.0 pence, being the share price on 30 December 2016, less the option price. The calculation assumes that the executive Director remains employed and completes the saving contract.

Payments to past Directors (audited)

No payments were made in 2016.

Payments for loss of office (audited)

No payments were made in 2016.

Statement of Directors' shareholding and share interests (audited)

Executive	Beneficially owned at 1 January 2016	Beneficially owned at 31 December 2016	Unvested share awards subject to Company performance conditions	Outstanding share awards under all employee share plans as at 31 December 2016	Shareholding as a % of salary at 31 December 2016	Value of beneficially owned at 31 December 2016	Basic salary at 31 December 2016
Executive Directors							
Richard Tyson	120,661	186,756	1,244,875	13,740	70.2%	304,412	433,500
Mark Hoad	40,000	40,000	929,468	13,740	19.7%	65,200	331,500
Chairman							
Neil Carson	100,000	150,000					
Non-executive Directors							
Michael Baunton	81,554	81,554					
Stephen King	100,000	100,000					
Jack Boyer	0	40,500					
Alison Wood	0	0					

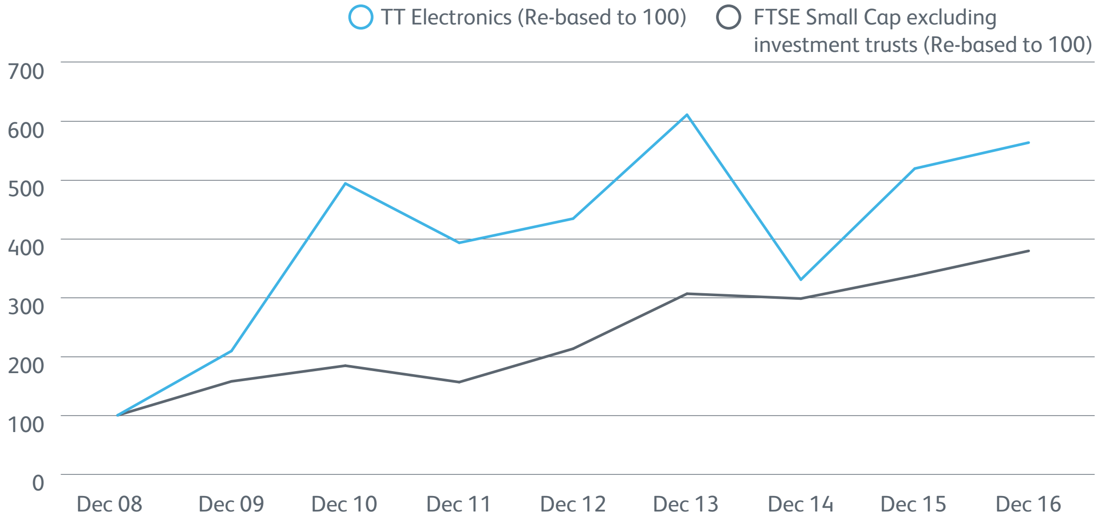
There have been no changes to shareholdings between 31 December 2016 and the date of this report.

Executive Directors are currently required to hold shares in the Company worth 100% of salary and must retain 50% of the net of tax value of any vested LTIP shares until the guideline is met. The updated Remuneration Policy will require the shareholding to increase to 200% of salary.

The closing middle market prices for an Ordinary share of 25 pence of the Company on 30 December 2015 and 2016 as derived from the Stock Exchange Daily Official List were 156.5 pence and 163.0 pence respectively. During 2016 the middle market price of TT Electronics plc Ordinary shares ranged between 122.0 pence and 168.0 pence.

Performance graph and table

The following graph shows the cumulative Total Shareholder Return of the Company over the last eight financial years relative to the FTSE SmallCap Index (excluding Investment Trusts). The FTSE SmallCap Index has been selected for consistency as it is the index against which the Company's Total Shareholder Return is measured for the purposes of the LTIP. In addition, the Company is a constituent of the Index.



Source: Thomson Reuters Datastream

The graph above shows the value, by 31 December 2016, of £100 invested in TT Electronics plc on 31 December 2008 compared with the value of £100 invested in the FTSE SmallCap Index (excluding Investment Trusts).

Total remuneration figures for the Chief Executive Officer

The total remuneration figures for the Chief Executive Officer during each of the last eight financial years are shown in the table below. The previous Chief Executive Officer was in this position until 30 June 2014 and was replaced by Richard Tyson from 1 July 2014. The total remuneration figures includes the short-term incentive based on that year's performance and LTIP awards based on three-year performance periods ending in the relevant year. The short-term incentive payout and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	2009	2010	2011	2012	2013	2014[1]	2014	2015	2016
Total remuneration (£'000)	516	771	1,576	1,684	1,154	249	401	1,151	**1,152**
Short-term incentive (%)	30.0	96.0	96.0	50.0	53.0	0.0	25.0	90.8	**100.0**
LTIP vesting (%)	n/a	0.0	100.0	94.0	89.6	39.6	n/a	0.0	**0.0**

(1) Relates to previous Chief Executive Officer who was in position until 30 June 2014.

Percentage change in the Chief Executive Officer's remuneration

The table below shows the percentage change in the Chief Executive Officer's total remuneration (excluding the value of any LTIP and pension benefits receivable in the year) between the financial year ending 31 December 2015 and 31 December 2016, compared to that of the average for all eligible UK employees of the Group.

	Salary	Benefits	Annual bonus
Chief Executive Officer	2.0%	0.1%	12.4%
Average of UK employees	-1.0%[1]	9.0%[2]	4.5%
Average of UK employees on a like-for-like basis	3.0%	9.0%[2]	24.0%

(1) The average UK salary has decreased due to a change in the employee mix.
(2) The average UK benefit cost has increased due to medical inflation in the private healthcare schemes.

Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends. Dividend figures relate to amounts payable in respect of the relevant financial year.

	2015	2016	% change
Staff costs (£m)[1]	149.8	**164.2**	9.6%
Dividends (£m)[2]	8.7	**8.9**	2.3%

(1) Staff costs have increased due to the acquisition of Aero Stanrew and exchange rate movements. At a constant currency basis they have increased by 1.4%.
(2) The spend on dividends has increased in line with the number of shares.

External appointments

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

Consideration by the Directors of matters relating to Directors' remuneration

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

Alison Wood (Remuneration Committee Chairman, replacing John Shakeshaft)
Jack Boyer
Michael Baunton
Neil Carson

Biographical information on the Committee members is set out on pages 46 and 47.

The Chief Executive Officer, Chief Financial Officer and EVP Human Resources attended meetings at the invitation of the Committee although they did not take part in any discussions relating to their own remuneration.

External advisers

In order to enable the Committee to make informed decisions on executive remuneration, the Committee retained independent external consultants, to advise on senior executive remuneration matters. Deloitte LLP (Deloitte) was appointed by the Committee in November 2016. Deloitte provided advice on the positioning of Executive and Senior Manager remuneration and the proposed Remuneration Policy during 2016. A separate part of Deloitte provided advice relating to divestment opportunities during 2016. Prior to the appointment of Deloitte, New Bridge Street (NBS), which is part of Aon plc, acted as consultant until October 2016. NBS provided no other services to the Company, although another part of Aon plc provides insurance broking and consultancy services. Both Deloitte and NBS are members of the Remuneration Consultants Group and have voluntarily signed up to its Code of Conduct.

The Committee takes into account the Remuneration Consultants Group's Code of Conduct when dealing with its advisers. The Committee is satisfied that the advice it received during the year was objective and independent and that the provision of other services by Deloitte and NBS in no way compromised their independence.

The fees paid to Deloitte and NBS for providing advice in relation to executive remuneration over the financial year under review amounted to £16,700 and £10,336 respectively.

Shareholder voting at AGM

As shown by the approach to the proposed changes to the Remuneration Policy, the Committee encourages dialogue with shareholders and will endeavour to consult with major shareholders ahead of any significant changes to our Remuneration Policy.

At the Annual General Meeting held on 11 May 2016, the resolution pertaining to the Directors' Remuneration Report was passed on a show of hands. At the Annual General Meeting on 9 May 2014, the resolution pertaining to the Directors' Remuneration Policy was passed on a show of hands. Proxy votes cast in respect of these resolutions were as follows:

Number of votes	For	For (%)	Against	Against (%)	Discretionary	Withheld	Total vote
Remuneration report	115,723,029	96%	1,573,118	1%	80,410	3,352,756	120,729,313
Remuneration Policy	92,585,908	87%	13,943,242	13%	124,322	60,235	106,713,707

A full schedule in respect of shareholder voting on the above and all resolutions at the 2016 AGM is available at www.ttelectronics.com.

The Remuneration Report has been approved by the Board on 8 March 2017 and signed on its behalf by:

Alison Wood
Chairman, Remuneration Committee

Other statutory disclosures

Directors' report

This Annual report and accounts includes the Directors' report and the audited financial statements for the year ended 31 December 2016. Certain information required to be disclosed in the Directors' report is provided in other sections of this Annual Report. This includes the overview, the operating and financial reviews, the corporate governance and remuneration reports and specific elements of the financial statements noted below and, accordingly, these are incorporated into the Directors' report by reference.

Strategic report

Details of the Group's activities and future plans are set out in the Strategic report on pages 2 to 43 of this report. Subsidiary undertakings are listed on pages 142 to 143.

Results and dividends

The Group's profit on ordinary activities after taxation was £16.7 million (2015: £10.4 million). The audited financial statements of the Group and the Company are set out on pages 90 to 144. Further details of the Group's activities are set out in the Strategic report on pages 2 to 43.

The Directors are recommending a final dividend of 3.9 pence per share for the year ended 31 December 2016 (2015: 3.8 pence) to be paid on 2 June 2017 to shareholders on the register at 19 May 2017 which, together with the interim dividend of 1.7 pence per share paid on 20 October 2016 (2015: 1.7 pence), makes a total for the year of 5.6 pence (2015: 5.5 pence).

Acquisitions and disposals

There were no acquisitions or disposals of business entities during 2016.

Directors

Rules for the appointment and replacement of Directors are set out in the Company's Articles of Association. Directors are appointed by the Board on the recommendation of the Nominations Committee. Directors may also be appointed or removed by the Company by ordinary resolution at a general meeting of holders of Ordinary shares. The office of a Director shall be vacated if his or her resignation is requested by all the other Directors, not being fewer than three in number. Further details of the activities of the Nominations Committee are set out on page 55.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs as a result of a takeover bid except that provisions of the Company's share plans may cause options and awards granted under such schemes to vest on takeover, subject to the satisfaction of any performance conditions. Further details of the executive Directors' service contracts can be found in the Directors' remuneration report on page 74. Copies of the executive Directors' service contracts and letters of appointment of the non-executive Directors are available for inspection by any person at the Company's registered office during normal business hours on any weekday (public holidays excepted) and at the Annual General Meeting from 15 minutes before the start of the AGM until its conclusion.

The Group maintains Directors' and officers' liability insurance. The Directors of the Company also benefit from a qualifying third party indemnity provision in accordance with Section 234 of the Companies Act 2006 and the Company's Articles of Association. The Company has provided a pension scheme indemnity within the meaning of Section 235 of the Companies Act 2006 to directors of associated companies.

Auditors

KPMG LLP (previously KPMG Audit Plc) were appointed as Auditors in 2010 following a competitive tender process. KPMG LLP have expressed their willingness to continue in office as Auditors and a resolution will be proposed to re-appoint them at the Annual General Meeting.

The Auditors' responsibilities are set out on page 93 and should be read in conjunction with those of the Directors as set out at the end of this report.

Annual General Meeting

The Annual General Meeting of the Company will be held on 12 May 2017 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD at 11.30 am. The Notice of the Company's Annual General Meeting accompanies this document.

Research and development

The Group carries out research and development in order to develop new products and processes and to substantially improve existing products and processes. Further details are given in note 14 to the consolidated financial statements.

Significant agreements relating to change of control

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

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

Employment

The Group is committed to the fair and equal treatment of all its employees regardless of gender, race, age, religion, disability or sexual orientation. Where existing employees become disabled, the policy of the Group is to provide continuing employment and training wherever practicable.

The Group makes significant efforts to ensure that high standards of employee welfare are maintained worldwide in all its operations, irrespective of geography and local market conditions. Together with many other global companies operating in its sector, the Group is a member of the Electronic Industry Citizenship Coalition, a leading industry organisation promoting best practice in corporate responsibility, which is committed to raising standards of employee welfare in all jurisdictions and at all levels of the supply chain for electronic products. Further details on the Group's policies relating to its employees are given on pages 42 to 43.

Political contributions

No political contributions were made by the Group during the year.

Share capital

The Company's issued share capital comprises a single class of share capital which is divided into Ordinary shares of 25 pence each. All issued shares are fully paid. The share capital during the year is shown in note 22 to the consolidated financial statements. The rights and obligations attaching to the Company's Ordinary shares are set out in the Company's Articles of Association, a copy of which can be obtained from Companies House in the United Kingdom or by writing to the Group General Counsel & Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

Holders of Ordinary shares are entitled to speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, to appoint corporate representatives and to exercise voting rights. Holders of Ordinary shares may also receive a dividend and on a liquidation may share in the assets of the Company. In addition, holders of Ordinary shares are entitled to receive the Company's Annual Report and Accounts. Subject to meeting certain thresholds, holders of Ordinary shares may require a general meeting of the Company to be held or the proposal of resolutions at Annual General Meetings.

Authority to allot shares and disapply statutory pre-emption rights

The Directors will be seeking to renew their authorities to allot unissued shares and to disapply statutory pre-emption rights at the Annual General Meeting to be held on 12 May 2017. During 2016, this authority was used primarily in connection with the allotment of shares resulting from the operation of the Group's share schemes.

Purchase of own shares

At the Annual General Meeting held on 11 May 2016, the Company was given authority to purchase up to 16,212,009 of its Ordinary shares until the date of its next AGM. Other than market purchases made by the Employee Benefit Trust, no purchases were made during the year by the Company. The Directors will be seeking a new authority for the Company to purchase its Ordinary shares at the forthcoming Annual General Meeting.

Further details regarding the authority to allot shares and disapply statutory pre-emption rights and the purchase of own shares are set out in the Notice of the Annual General Meeting which accompanies this document and is available to view on the Company's website.

Shares held by the Employee Benefit Trust

The Company has established an employee benefit trust ("EBT"), the trustee of which is Sanne Fiduciary Services Limited (previously Sanne Trust Company Limited), part of Sanne Group. As at 31 December 2016, the trustee held 24,240 shares with a nominal value of £6,060.00 and an aggregate purchase price of £1.272 per share, representing 0.015 per cent of the total issued share capital at that date. These shares will be used to satisfy awards made under the TT Electronics plc Restricted Share Plan ("RSP"), the TT Electronics plc Long Term Incentive Plan ("LTIP") or other employee share schemes. The maximum number of shares held by the EBT during the year was 90,335, of which 66,095 shares were used to satisfy a share award for Richard Tyson. Details of this award are shown on page 47 of the 2014 Annual Report and Accounts. The voting rights in relation to these shares are exercisable by the trustee; however, in accordance with investor protection guidelines the trustee abstains from voting. A dividend waiver is in place under which the trustee waived its right to receive dividends on the shares it held during the year and any future dividends. The executive Directors, as employees of the Company, are potential beneficiaries of shares held by the EBT.

Substantial shareholding notifications

The Company had been notified of the following voting rights attaching to TT Electronics plc shares in accordance with the Disclosure and Transparency Rules at 6 March 2017 and 31 December 2016.

	6 March 2017		31 December 2016	
	Number	**%**	Number	%
Aberforth Partners LLP	**21,156,791**	**13.0**	19,737,263	12.1
FIL Limited (Fidelity International)	**15,373,528**	**9.4**	15,373,528	9.4
UBS Global Asset Management	**9,301,055**	**5.8**	9,301,055	5.8
Delta Lloyd NV and group companies	**8,374,810**	**5.2**	8,374,810	5.2
JO Hambro Capital Management	**8,287,048**	**5.1**	8,287,048	5.1
Tameside MBC re: Greater Manchester Police	**8,108,219**	**5.1**	8,108,219	5.1
Schroders plc	**7,931,600**	**4.9**	7,931,600	4.9
Tweedy, Browne Company LLC	**7,664,336**	**4.9**	7,664,336	4.9
Aberdeen Asset Managers Limited	**7,835,077**	**4.8**	15,557,726	9.7

So far as has been ascertained, no other person or corporation holds or is beneficially interested in any substantial part of the share capital of the Company.

Voting rights and restrictions on transfer of shares

On a show of hands at a general meeting of the Company, every holder of Ordinary shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every Ordinary share held. Further details regarding voting at the Annual General Meeting can be found in the Notice of the Annual General Meeting which accompanies this document. None of the Ordinary shares carry any special rights with regard to control of the Company. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting. A shareholder can lose his/her entitlement to vote at a general meeting where that shareholder has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares. The Directors may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Directors may also refuse to register a transfer of a certificated share unless the instrument of transfer: (i) is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Directors accompanied by the certificate for the share to which it relates and/or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; (iii) is in favour of a person who is not a minor, bankrupt or a person in respect of whom an order has been made on the grounds that such person is suffering from a mental disorder or is otherwise incapable of managing their affairs; or (iv) is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Directors may decide to suspend the registration of transfers, for up to 30 days a year, by closing the register of shareholders. The Directors cannot suspend the registration of transfers of any uncertificated shares without obtaining consent from CREST.

There are no other restrictions on the transfer of Ordinary shares in the Company except: certain restrictions may from time to time be imposed by laws and regulations (for example insider trading laws or the Market Abuse Regulations 2015); pursuant to the Company's share dealing code whereby the Directors and certain employees of the Group require approval to deal in the Company's shares; and where a shareholder with at least a 0.25 per cent interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of Ordinary shares or on voting rights.

Articles of Association

The Company's Articles of Association may only be amended by special resolution approved at a general meeting of the shareholders.

UK Corporate Governance Code

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

Disclosure of information to Auditors

To the best of each Director's knowledge and belief, there is no audit information relevant to the preparation of the Auditors' report of which the Auditors are unaware and each Director has taken all the steps which might be expected to be aware of such relevant information and to establish that the Auditors are also aware of that information.

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

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

Listing Rule	Description	Location
9.8.4(13)	Current and future dividend waiver	Page 86. Shares held by the Employee Benefit Trust

Approved by the Board on 8 March 2017 and signed on its behalf by:

Lynton Boardman
Group General Counsel & Company Secretary

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report

We confirm that to the best of our knowledge:

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

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

The coordination and review of Group-wide input into the Annual Report is a key element of the control process upon which the Directors rely and is an exercise which spans a period wider than the timetable for compiling the Annual Report itself. This control process incorporates the controls the Group operates throughout the year to identify key financial and operational issues and includes:

- Strategy meetings, held as part of most Board meetings, at which the entire Board is present, resulting in a clear agreement of the Group's strategy.
- This includes the identification of the key milestones and the related key performance indicators to be monitored and measured throughout the period.
- Monthly reviews of business performance conducted by executive management (in consultation with divisional management), supplemented by reports highlighting key issues and analysis of the main variances from budget and prior year.
- Preparation of a detailed budget, reviewed and agreed by management and then the Board, which is used to calibrate strategy implementation and against which actual performance is measured.
- A timetabled process coordinating input from each division, identifying significant market issues and key elements of performance for each business area, and appropriately incorporating them into the structure of the Annual Report.
- The identification of key risks from the risk management process, for inclusion within the Annual Report, ensuring a consistency of approach with regard to the risks and the ongoing review programme.
- A planned Audit Committee sign-off process which incorporates meetings of the Chairman of the Audit Committee with the executive Directors, the Risk and Assurance function and external Auditors to identify and timetable potential issues of significance to be addressed.
- A process for internal distribution and comment on the Annual Report, including those of the members of the Board, the Executive Management Board, key advisers and external Auditors

By order of the Board:

Lynton Boardman
Group General Counsel & Company Secretary
8 March 2017

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of TT Electronics plc for the year ended 31 December 2016 set out on pages 94 to 144. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement, in decreasing order of audit significance, that had the greatest effect on our audit were as follows:

The presentation of 'underlying' operating profit (£31.3 million, 2015 £21.7 million). Risk rating ⟷
Refer to page 59 (Audit committee section of the Directors' Report and Notes 1c, 1d and 7 (accounting policy and financial disclosures)).

The risk: The Group discloses its earnings in accordance with the requirements of Adopted IFRS. It also presents a measure of underlying profit and earnings as defined in note 7, which excludes a number of separately disclosed items of income and expenditure. In 2016 this mainly related to the continued restructuring of the Group's manufacturing operations (Operational Improvement Plan), disposals of various properties and amortisation of acquired intangibles. There is a risk that items disclosed outside underlying profit and earnings are not in line with the accounting policy of the company and that this policy is not consistently applied between periods.

Alternative performance measures can provide readers with appropriate additional information if properly used and presented which can assist them in gaining a better understanding of the Group's financial performance and strategy. However, when improperly used and presented, these kinds of measures might prevent the Annual Report being fair, balanced and understandable by hiding the real financial position and results or by making the profitability of the reporting entity seem more attractive.

There is also a risk that provisions created through charges outside underlying profit are not utilised in the manner intended, and that surplus amounts are not credited back outside underlying profit.

Our response: Our procedures included comparing a sample of the items excluded to supporting documentation to assess if they have been appropriately excluded from underlying profit based on the Group's accounting policy.

We considered whether the policy has been applied consistently between periods by comparing the items excluded in the two years ended 31 December 2016 and on the basis of our understanding of the results gained throughout the audit process.

We also assessed (i) the utilisation of amounts charged outside underlying profit and the appropriateness of any subsequent reversals of provisions for surplus amounts that were initially charged outside underlying profit. This assessment was performed by reconciling the movements in provisions to underlying accounting records and supporting documentation; (ii) the extent to which the relative prominence given to underlying financial information and related commentary and adopted IFRS financial information could be misleading; and (iii) whether the underlying financial information is not otherwise misleading in the form and context in which it appears.

Product related and restructuring provisions (included within provisions of £7.5 million, 2015 £12.8 million). Risk rating ⟷
Refer to page 60 (Audit Committee section of the Directors' Report and Notes 1h, 2u and 18 (accounting policy and financial disclosures)).

The risk: The Group's products are used in a variety of complex applications and if they do not perform in the manner specified, the Group may be exposed to claims from customers. Assessing if such claims are valid and, if so, estimating the likely outflow of economic benefit, which could be material to the financial statements, requires judgement and involves making estimates and assumptions which may prove to have been inaccurate.

The Group is continuing to reorganise a number of its operations, giving rise to material redundancy and other restructuring charges. The timing of recognition of the associated provisions in accordance with the requirements of the relevant accounting standard also involves judgement.

Our response: Our procedures over the completeness of product related claims included corresponding with the Group's external counsel, inspecting correspondence with customers and discussions with the Group's internal legal counsel and business unit management to identify actual and potential customer claims. Our procedures over the recognition and measurement of product related provisions included considering relevant available information used by the Directors to assess the validity of claims and challenging the basis of the estimates using our understanding of the status of ongoing claims and disputes gained throughout the audit process.

Our procedures over the timing of recognition of redundancy and restructuring provisions included; critically assessing whether the restructuring programmes and commitments were sufficiently advanced to trigger the need for a provision in accordance with relevant accounting standards; considering the commitments made via public announcements and other communications with those to be affected; and testing the accuracy of provisions through agreeing individual provisions to supporting information.

We also assessed whether the Group's disclosures in respect of these provisions and the movements in the year were appropriate.

Carrying value of goodwill (£106.5 million, 2015: £95.2 million). Risk rating ⟺

Refer to page 60 (Audit Committee section of the Directors' Report and Notes 1h, 2k and 13 (accounting policy and financial disclosures)).

The risk: The Group has generated significant goodwill on acquisitions whose recoverability is dependent on the ability of the businesses to which it relates to generate sufficient future economic benefits.

There is a risk that a significant reduction in profitability due to competitive forces or a slowdown in customer demand for products using components supplied by the Group may result in an impairment or further impairment.

The most significant risk of goodwill impairment relates to the carrying value of goodwill associated with Roxspur where the recoverable amount exceeds the book value of £2.1 million by £6.6 million.

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

Our response: Our procedures included testing the principles of the Group's discounted cash flow models for each significant cash generating unit and assessing the sensitivity of the impairment calculations to changes in the key assumptions. We challenged the key assumptions in the impairment calculations driving projected future economic benefits (relating to sales and margins during the projection period, long term growth rates and discount rates).

Our challenge was based on our assessment of the historical accuracy of the Group's impairment forecasts; a comparison of the Group's assumptions to externally derived macro-economic data including expected industry growth, inflation rates and country specific growth rates (where possible) as well as our own assessments. Our own assessments were based on our understanding of the specific trading challenges being faced by the business at risk and its relative performance in the context of the overall market performance.

We also assessed whether the Group's disclosures set out in note 13 about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

Tax provisioning (included within income tax payable of £9.7 million, 2015 £7.4 million). Risk rating ⟺

Refer to page 60 (Audit Committee section of the Directors' Report and Notes 1h, 2t and 8 (accounting policy and financial disclosures)).

The risk: Accruals for tax contingencies require the directors to make judgements and estimates in relation to tax issues and exposures given that the Group operates in a number of tax jurisdictions, the complexities of transfer pricing and other international tax legislation and the time taken for tax matters to be agreed with the tax authorities. There is a risk that the Directors have not made adequate provisions for tax contingencies.

Our response: Our procedures included the use of our own international and local tax specialists to assess the Group's tax positions, inspect its correspondence with the relevant tax authorities and analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts.

We also considered the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

We continue to perform procedures over property, plant and equipment. However, following improved performance, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £1.2 million (2015: £1.0 million), determined with reference to a benchmark of Group profit before tax of £25.8 million (2015: £18.4 million) (of which it represents 4.7% (2015: 5.4%)) normalised to exclude net income from restructuring of £0.1 million (as disclosed in note 7) and the incremental amortisation of acquisition related intangibles of £2.7 million (2015: to exclude restructuring costs of £2.9 million and asset impairments of £1.7 million) as disclosed in note 7.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.06 million (2015: £0.05 million) for items impacting the income statement and £0.12 million (2015: £0.10 million) for items in respect of balance sheet misclassifications in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 89 (2015: 114) reporting components, we subjected 47 (2015: 60) to audits for Group reporting purposes and 4 (2015: 4) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed.

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

2016 (2015)	Number of components	Group revenue	Group profit before tax	Total assets
Audits for Group reporting purposes	47 (60)	83% (86%)	75% (90%)	79% (84%)
Specified risk focused audit procedures on significant working capital balances, non-current assets, revenue, cost of sales and administrative expenses.	4 (4)	5% (1%)	16% (4%)	12% (8%)
Total	**51 (64)**	**88% (87%)**	**91% (94%)**	**91% (92%)**

The remaining 12% (2015:13%)of total Group revenue, 9% (2015:6%) of Group profit before tax and 9% (2015:8%) of total Group assets is represented by 48 (2015: 50) reporting components, none of which individually represented more than 5% (2015:7%) of any of total Group revenue, Group profit before tax or total Group assets. For these remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £0.01 to £1.03 million (2015: £0.01 to £0.95 million), having regard to the mix of size and risk profile of the Group across the components.

The Group audit team visited components in the USA, Mexico, China and the UK (2015: USA, Germany, Austria, Mexico and UK). Telephone conference meetings were also held with significant component auditors. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of viability on page 25, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the 3 years to December 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee section of the Director's Report does not appropriately address matters communicated by us to the audit committee.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 53 and 25 in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 44 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 88, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mike Barradell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
8 March 2017

Financial Statements
Consolidated income statement
for the year ended 31 December 2016

£million (unless otherwise stated)	Note	2016	2015
Revenue	3a	**569.9**	509.9
Cost of sales		**(461.6)**	(417.5)
Gross profit		**108.3**	92.4
Distribution costs		**(32.0)**	(29.0)
Administrative expenses		**(49.8)**	(48.2)
Other operating income		**1.1**	1.1
Operating profit		**27.6**	16.3
Analysed as:			
Underlying operating profit	3a	**31.3**	21.7
Restructuring	7	**0.1**	(2.9)
Acquisition related costs	7	**(3.8)**	(0.8)
Asset impairments	7	**–**	(1.7)
Finance income	5	**0.2**	1.8
Finance costs	5	**(4.6)**	(4.3)
Profit before taxation		**23.2**	13.8
Taxation	8	**(6.5)**	(3.4)
Profit for the year attributable to owners of the Company		**16.7**	10.4

EPS attributable to owners of the Company (p)			
Basic	10	**10.3**	6.5
Diluted	10	**10.3**	6.5

Consolidated statement of comprehensive income

for the year ended 31 December 2016

£million	Note	2016	2015
Profit for the year		**16.7**	10.4
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		**19.4**	2.5
Gain/(loss) on hedge of net investment in foreign operations		**7.3**	(1.2)
Loss on cash flow hedges taken to equity less amounts taken to income statement		**(0.5)**	(0.1)
Items that will never be reclassified to the income statement:			
Remeasurement of defined benefit pension schemes	21	**11.3**	(11.4)
Remeasurement of other post-employment benefits		**(0.2)**	0.1
Tax on remeasurement of defined benefit pension schemes	8	**(2.1)**	1.9
Total comprehensive income for the year attributable to the owners of the Company		**51.9**	2.2

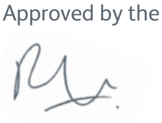
Consolidated balance sheet

at 31 December 2016

£million	Note	2016	2015[1]
ASSETS			
Non-current assets			
Property, plant and equipment	12	92.2	89.6
Goodwill	13	106.5	95.2
Other intangible assets	14	36.7	36.6
Deferred tax assets	8	6.4	4.9
Total non-current assets		241.8	226.3
Current assets			
Inventories	15	79.6	79.9
Trade and other receivables	16	96.8	71.9
Income taxes receivable		0.8	–
Derivative financial instruments		0.6	0.2
Cash and cash equivalents		49.8	40.9
Total current assets		227.6	192.9
Total assets		469.4	419.2
LIABILITIES			
Current liabilities			
Borrowings	19	1.6	1.8
Derivative financial instruments		2.4	1.3
Trade and other payables	17	94.8	83.7
Income taxes payable		9.7	7.4
Provisions	18	7.5	12.6
Total current liabilities		116.0	106.8
Non-current liabilities			
Borrowings	19	103.6	95.2
Deferred tax liability	8	6.1	4.3
Pensions	21	5.7	21.1
Provisions	18	–	0.2
Other non-current liabilities	17	4.6	4.2
Total non-current liabilities		120.0	125.0
Total liabilities		236.0	231.8
Net assets		233.4	187.4
EQUITY			
Share capital	22	40.6	40.5
Share premium	22	2.1	1.8
Other reserves		9.6	7.0
Hedging and translation reserve		44.3	18.1
Retained earnings		134.8	118.0
Equity attributable to owners of the Company		231.4	185.4
Non-controlling interests		2.0	2.0
Total equity		233.4	187.4

(1) Updated to reflect re-presentation of certain balances as explained in note 1.

Approved by the Board of Directors on 8 March 2017 and signed on their behalf by:



Richard Tyson
Director

Mark Hoad
Director

Consolidated statement of changes in equity

for the year ended 31 December 2016

£million	Share capital	Share Premium[1]	Hedging and translation reserve	Other Reserves[1]	Retained earnings	Sub-total	Non-controlling interest	Total
At 1 January 2015	39.8	1.5	16.9	1.9	125.7	185.8	2.0	187.8
Profit for the year	–	–	–	–	10.4	10.4	–	10.4
Other comprehensive income								
Exchange differences on translation of foreign operations	–	–	2.5	–	–	2.5	–	2.5
Loss on hedge of net investment in foreign operations	–	–	(1.2)	–	–	(1.2)	–	(1.2)
Loss 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	–	–	–	–	(11.4)	(11.4)	–	(11.4)
Remeasurement of other post-employment benefits	–	–	–	–	0.1	0.1	–	0.1
Tax on remeasurement of defined benefit pension schemes	–	–	–	–	1.9	1.9	–	1.9
Total other comprehensive income	–	–	1.2	–	(9.4)	(8.2)	–	(8.2)
Transactions with owners recorded directly in equity								
Equity dividends paid by the Company	–	–	–	–	(8.7)	(8.7)	–	(8.7)
Share-based payments	–	–	–	1.6	–	1.6	–	1.6
Deferred tax on share-based payments	–	–	–	0.1	–	0.1	–	0.1
New shares issued	0.7	0.3	–	3.4	–	4.4	–	4.4
At 31 December 2015	**40.5**	**1.8**	**18.1**	**7.0**	**118.0**	**185.4**	**2.0**	**187.4**
Profit for the year	–	–	–	–	16.7	16.7	–	16.7
Other comprehensive income								
Exchange differences on translation of foreign operations	–	–	19.4	–	–	19.4	–	19.4
Gain on hedge of net investment in foreign operations	–	–	7.3	–	–	7.3	–	7.3
Loss on cash flow hedges taken to equity less amounts taken to income statement	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Remeasurement of defined benefit pension schemes	–	–	–	–	11.3	11.3	–	11.3
Remeasurement of other post-employment benefits	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Tax on remeasurement of defined benefit pension schemes	–	–	–	–	(2.1)	(2.1)	–	(2.1)
Total other comprehensive income	–	–	26.2	–	9.0	35.2	–	35.2
Transactions with owners recorded directly in equity								
Equity dividends paid by the Company	–	–	–	–	(8.9)	(8.9)	–	(8.9)
Share-based payments	–	–	–	2.4	–	2.4	–	2.4
Deferred tax on share-based payments	–	–	–	0.2	–	0.2	–	0.2
New shares issued	0.1	0.3	–	–	–	0.4	–	0.4
At 31 December 2016	40.6	2.1	44.3	9.6	134.8	231.4	2.0	233.4

(1) Updated to reflect a re-presentation of reserves (see note 22).

Consolidated cash flow statement

for the year ended 31 December 2016

£million	Note	2016	2015
Cash flows from operating activities			
Profit for the year		**16.7**	10.4
Taxation		**6.5**	3.4
Net finance costs		**4.4**	2.5
Restructuring		**(0.1)**	2.9
Asset impairments		**–**	1.7
Acquisition related costs		**3.8**	0.8
Underlying operating profit		**31.3**	21.7
Adjustments for:			
Depreciation of property, plant and equipment	12	**18.3**	15.9
Amortisation of intangible assets	14	**5.3**	4.4
Other items		**1.8**	1.0
Decrease in inventories		**9.3**	2.2
(Increase)/decrease in receivables		**(17.5)**	3.5
Increase/(decrease) in payables		**1.1**	(1.1)
Underlying operating cash flow		**49.6**	47.6
Special payments to pension funds		**(4.5)**	(4.3)
Restructuring and acquisition related costs		**(10.8)**	(10.1)
Net cash generated from operations		**34.3**	33.2
Net income taxes paid		**(7.7)**	(7.9)
Net cash flow from operating activities		**26.6**	25.3
Cash flows from investing activities			
Interest received		**0.2**	0.1
Purchase of property, plant and equipment	12	**(17.4)**	(15.1)
Proceeds from sale of property, plant and equipment and grants received		**13.1**	0.8
Development expenditure	14	**(1.5)**	(1.3)
Purchase of other intangibles	14	**(4.2)**	(2.5)
Acquisitions of businesses	4	**–**	(39.8)
Cash with acquired businesses		**–**	1.6
Net cash flow from investing activities		**(9.8)**	(56.2)
Cash flows from financing activities			
Issue of share capital	22	**0.3**	0.5
Interest paid		**(3.0)**	(2.2)
Repayment of borrowings		**(113.7)**	(2.9)
Proceeds from borrowings		**114.6**	44.6
Other items		**(0.3)**	-
Finance leases		**(0.3)**	(0.1)
Dividends paid by the Company	9	**(8.9)**	(8.7)
Net cash flow from financing activities		**(11.3)**	31.2
Net increase in cash and cash equivalents		**5.5**	0.3
Cash and cash equivalents at beginning of year	24	**40.3**	39.4
Exchange differences	24	**4.0**	0.6
Cash and cash equivalents at end of year	24	**49.8**	40.3
Cash and cash equivalents comprise			
Cash at bank and in hand		**49.8**	40.9
Bank overdrafts	19	**–**	(0.6)
		49.8	40.3

Notes to the consolidated financial statements

1 Basis of preparation

a) Basis of accounting

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

The financial statements set out on pages 94 to 135 have been prepared using consistent accounting policies.

Adoption of new and amendments to published standards and interpretations effective for the Group for the year ended 31 December 2016 did not have any impact on the financial position or performance of the Group.

Comparative financial information for the year ended 31 December 2015 has been updated to reflect remeasured fair values on the acquisition of Aero Stanrew Group Limited. The effect on the balance sheet was to decrease trade and other receivables by £0.3 million and to increase goodwill by £0.3 million (see note 4). Reserves have been re-presented to transfer £3.4 million on the acquisition of Aero Stanrew Group Limited from share premium to the merger reserve (see note 22).

b) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2016 and the Group's financial performance for the year ended 31 December 2016.

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

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

c) Alternative performance measures

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

Alternative performance measures are presented in these financial statements as management 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 and underlying effective tax rate.

d) Underlying operating profit

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

Other alternative performance measures are defined in note 7.

e) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out within the Strategic Report on pages 2 to 43. The Strategic Report analyses the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, note 20 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group had net debt of £55.4 million at 31 December 2016 (2015: £56.1 million), with available undrawn committed and uncommitted facilities of £122.8 million. Given the considerable financial resources available, together with long-term partnerships with a number of key customers and suppliers across different geographic areas and industries, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources and financial headroom to continue in operational existence for at least twelve months from the date of signing these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further details are contained in the Governance and Directors' Report on page 53.

1 Basis of preparation (continued)

f) New standards and interpretations not yet adopted

The Group continues to assess the impact of IFRS 15 Revenue from Contracts With Customers and the revised issuance of IFRS 9 Financial Instruments which will be effective for periods beginning 1 January 2018 and IFRS 16 Leases which will be effective for periods beginning 1 January 2019.

A number of other new standards, amendments and interpretations are effective for periods beginning 1 January 2017 and have not yet been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

g) Change in accounting policies

There have been no changes to accounting policies during the year. Adoption of new and amendments to published standards and interpretations effective for the Group for the year ended 31 December 2016 did not have any impact on the financial position or performance of the Group.

h) Significant accounting judgements and estimates

Judgements

Determining many of the amounts included in the consolidated financial statements involves the use of judgements. These judgements are based on management's best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. In addition to the key sources of estimation uncertainty shown below, in applying the Group's accounting policies, the Directors have exercised judgement in adopting alternative performance measures (as described in note 7). The determination of items of income and expense excluded from operating profit to arrive at underlying operating profit requires critical judgement.

Estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. In particular, information about significant areas of estimation uncertainty made by the Directors in preparing the consolidated financial statements is shown below:

- Note 8 – Taxation. Accruals for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. These amounts are expected to reverse as the statute of limitations is reached or tax audits occur in the respective countries concerned. All such provisions are included in current liabilities. The recognition of deferred tax assets is dependent on assessments of future taxable income in the relevant countries concerned
- Note 12 – Property, plant and equipment. Where indicators of impairment exist the carrying amount of property, plant and equipment has been tested by comparing the value in use to the net book value of the asset.
- Note 13 – Impairment of goodwill. The carrying amount of goodwill has been tested for impairment by estimating the value in use of the cash-generating units to which it has been allocated. Note 13 outlines the significant assumptions made in performing the impairment tests;
- Note 14 – Other intangible assets. The recoverability of capitalised development costs is dependent on assessments of the future commercial viability of the relevant products and processes;
- Note 18 – Provisions. The Group makes appropriate provision on a consistent basis for risks of product liability, litigation, restructuring, credit risk and other normal trading exposures with estimates being made regarding the timing of future payments; and
- Note 21 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions, including future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate.

2 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied across the Group.

a) Revenue

Revenue is measured at the fair value of the right to consideration, usually the invoiced value, for the provision of goods and services to external customers excluding value added tax and other sales related taxes and is recognised when the significant risks and rewards of ownership have transferred to the customer. In most cases this coincides with the transfer of legal title of the goods. Revenue for services is recognised as the services are rendered.

b) Finance income

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

c) Finance costs

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

d) Discontinued operations and assets held for sale

The Group reports a business as a discontinued operation when it has been disposed of in a period, or its future sale is considered to be highly probable at the balance sheet date, and results in the cessation of a major line of business or geographical area of operation. An asset is classified as held for sale if it is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and that it is highly probable the asset will be sold within one year from the date of classification.

e) Dividends

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

f) Business combinations

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

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

g) Property, plant and equipment

Initial measurement

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

Depreciation

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

The depreciation rates of assets are as follows

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

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

2 Summary of significant accounting policies (continued)

h) Investment property

Property held to earn rental income rather than for the purpose of the Group's principal activities is classified as investment property. Investment property is recorded at cost less accumulated depreciation and any recognised impairment loss. The depreciation policy is consistent with that described for other Group properties. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

i) Leases

Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased items, are capitalised at the commencement of the lease. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. Lease payments are apportioned between the finance charge and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. All other leases are treated as operating leases and the cost is expensed to the income statement as incurred.

j) Government grants

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

k) Goodwill

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

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

l) Other intangible assets

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

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

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

The amortisation rates for intangible assets are:

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

Amortisation is charged on a straight-line basis.

2 Summary of significant accounting policies (continued)

m) Deferred taxation

Deferred taxation is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases. No provision is made for deferred tax which would become payable on the distribution of retained profits by overseas subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured using the tax rates expected to apply when the asset is realised or the liability settled based on tax rates enacted or substantively enacted by the balance sheet date. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised or that they will reverse. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

n) Inventories

Inventories are valued at the lower of cost, including related overheads, and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and the overheads incurred in bringing inventories to their present location and condition. Cost is calculated on a weighted average cost basis.

o) Trade and other receivables

Trade receivables are carried at original invoice price (which is the fair value of the consideration receivable) less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the original carrying amount and the recoverable amount, being the present value of expected cash flows receivable. The amount of the provision is recognised in the income statement.

p) Financial instruments

Recognition

The Group recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Measurement

When financial assets and liabilities are initially recognised, they are measured at fair value being the consideration given or received plus directly attributable transaction costs.

In determining estimated fair value, investments are valued at quoted bid prices on the trade date.

Loans and receivables comprise loans and advances other than purchased loans. Originated loans and receivables are initially recognised in accordance with the policy stated above and subsequently remeasured at amortised cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

The Group uses derivative financial instruments such as forward foreign exchange contracts and interest rate derivatives to hedge risks associated with foreign exchange fluctuations and interest rate risk. These are designated as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

2 Summary of significant accounting policies (continued)

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. Originated loans and receivables are derecognised on the date they are transferred by the Group.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits held on call or with maturities of less than three months at inception and highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk of changes in value, and bank overdrafts.

r) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

s) Trade payables

Trade payables are carried at the amounts expected to be paid to counterparties.

t) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

v) Employee benefits

The Group operates defined benefit post-retirement benefit schemes and defined contribution pension schemes.

Defined benefit plans

The liability recognised in the balance sheet for defined benefit schemes is the present value of the schemes' liabilities less the fair value of the schemes' assets. The operating and financing costs of defined benefit schemes are recognised separately in the income statement. Operating costs comprise the current service cost, any gains or losses on settlement or curtailments, and past service costs. Net interest income and expense on net defined benefit assets and liabilities is determined by applying discount rates used to measure defined benefit obligations at the beginning of the year to net defined benefit assets and liabilities at the beginning of the year and is included in finance income and costs. Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss. Surpluses are recognised where, on ultimate wind-up when there are no longer any remaining members, any surplus will be returned to the Group.

2 Summary of significant accounting policies (continued)

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised in the income statement in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term employee benefits

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

Share-based payments

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

w) Own shares

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

x) Foreign currency translation

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

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

3 Segmental reporting

The Group is organised into four divisions, as shown below, according to the nature of the products and services provided. The presentation of these divisions is consistent with the information reviewed by the chief operating decision maker and there is no aggregation of segments. The chief operating decision maker is the Board of Directors.
The operating segments are:

- Transportation Sensing and Control – The Transportation Sensing and Control division develops both sensors and control solutions for automotive OEMs and tier one suppliers including powertrain providers for passenger cars and trucks. The division develops a wide range of sensors for multiple applications on a vehicle, from gear position and pedal sensors to fluid and emission sensors and with almost all of them focused on safety and driver assistance features required by our customers;
- Industrial Sensing and Control – The Industrial Sensing and Control division addresses challenging sensing requirements in terms of precision; speed of response; reliability or physical environment in developing position, pressure, temperature, flow and fluid quality sensors which are used for critical applications in a range of end markets including industrial automation, industrial process control, medical and aerospace sectors;
- Advanced Components – The Advanced Components division creates specialist, high performance, ultra-reliable, highly engineered electronic components for circuit protection, power management, signal conditioning and connectivity applications in harsh environments. The division serves customers in the industrial, automotive, aerospace, defence and medical markets and focuses on creating value by developing innovative electronic solutions that solve especially challenging problems for our customers' electronic circuits or systems; and
- Integrated Manufacturing Services – The IMS division draws on its manufacturing design engineering capabilities, global facilities and world-class quality standards to provide highly complex electronic manufacturing solutions to customers in the aerospace and defence, medical, and high technology industrial sectors. The division has broad capabilities ranging from printed circuit board assembly to environmental test and full systems integration. This global suite of end-to-end solutions is focused exclusively on low volume, high mix business.

The accounting policies of the reportable segments are the same as the Group's accounting policies as shown in note 2.

The key performance measure of the operating segments is underlying operating profit. Refer to note 7 for a definition of underlying operating profit. Segment underlying operating profit represents the profit earned by each segment after allocation of central head office administration costs and is reviewed by the chief operating decision maker.

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

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

a) Income statement information – continuing operations

	2016				
£million	Transportation Sensing and Control	Industrial Sensing and Control	Advanced Components	Integrated Manufacturing Services	Total
Sales to external customers	**237.2**	**64.4**	**121.3**	**147.0**	**569.9**
Segment underlying operating profit	**3.2**	**11.9**	**10.3**	**5.9**	**31.3**
Adjustments to underlying operating profit (note 7)					**(3.7)**
Operating profit					**27.6**
Net finance costs					**(4.4)**
Profit before taxation					**23.2**

3 Segmental reporting (continued)

£million	Transportation Sensing and Control (2015)	Industrial Sensing and Control (2015)	Advanced Components (2015)	Integrated Manufacturing Services (2015)	Total (2015)
Sales to external customers	205.8	61.0	95.3	147.8	509.9
Segment underlying operating profit	(1.4)	11.4	6.0	5.7	21.7
Adjustments to underlying operating profit (note 7)					(5.4)
Operating profit					16.3
Net finance costs					(2.5)
Profit before taxation					13.8

There are no significant sales between segments.

b) Segment assets and liabilities

	Assets		Liabilities	
£million	2016	2015	2016	2015
Transportation Sensing and Control	**119.8**	102.5	**43.1**	38.9
Industrial Sensing and Control	**95.1**	82.9	**9.8**	11.7
Advanced Components	**110.9**	104.5	**26.1**	18.9
Integrated Manufacturing Services	**86.0**	83.3	**27.9**	31.2
Segment assets and liabilities	**411.8**	373.2	**106.9**	100.7
Pensions and other post-employment benefits	**–**	–	**5.7**	21.1
Unallocated assets and liabilities	**57.6**	46.0	**123.4**	110.0
Total assets/liabilities	**469.4**	419.2	**236.0**	231.8

	Capital expenditure		Depreciation and amortisation	
£million	2016	2015	2016	2015
Transportation Sensing and Control	**12.4**	7.5	**12.5**	11.4
Industrial Sensing and Control	**2.6**	2.6	**2.0**	1.5
Advanced Components	**6.0**	6.0	**6.1**	4.9
Integrated Manufacturing Services	**4.2**	2.8	**3.0**	2.5
Total	**25.2**	18.9	**23.6**	20.3

Unallocated assets of £57.6 million (2015: £46.0 million) include deferred tax of £6.4 million (2015: £4.9 million), cash of £49.8 million (2015: £40.9 million), derivative financial instruments of £0.6 million (2015: £0.2 million) and income tax of £0.8 million (2015: nil).

Unallocated liabilities of £123.4 million (2015: £110.0 million) include borrowings of £105.2 million (2015: £97.0 million), derivative financial instruments of £2.4 million (2015: £1.3 million), deferred tax of £6.1 million (2015: £4.3 million) and income tax of £9.7 million (2015: £7.4 million).

3 Segmental reporting (continued)

c) Geographic information

Revenue by destination

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

£million	2016	2015
United Kingdom	**96.9**	82.6
Rest of Europe	**259.1**	234.5
North America	**103.3**	101.9
Central and South America	**3.1**	2.4
Asia	**102.8**	84.6
Rest of the World	**4.7**	3.9
Total continuing operations	**569.9**	509.9

No individual customer directly accounts for more than 10% of Group revenue. Revenue from services is less than 1% of Group revenues. All other revenue is from the sale of goods.

Non-current assets

The carrying amount of non-current assets, excluding deferred tax assets and financial assets, analysed by the geographical area is shown below:

£million	2016	2015
United Kingdom	**77.2**	80.5
Rest of Europe	**45.3**	42.0
North America	**89.0**	80.2
Central and South America	**8.8**	4.9
Asia	**15.1**	13.8
	235.4	221.4

4 Acquisitions

On 18 December 2015 the Group acquired Aero Stanrew Group Limited. The consideration was paid through a combination of £39.8 million in cash and the issue of 2,575,669 shares (with a fair value of £4.0 million) to key members of the management team.

As consideration exceeds the £21.4 million of net assets acquired (including identifiable intangible assets of £18.9 million), goodwill of £22.4 million has been recognised on the balance sheet.

Comparative financial information for the year ended 31 December 2015 has been updated to reflect remeasured fair values on the acquisition of Aero Stanrew Group Limited. The effect on the balance sheet was to decrease trade and other receivables by £0.3 million and to increase goodwill by £0.3 million. The measurement period closed on 17 December 2016 with no further adjustments to provisional fair values.

5 Finance costs and finance income

£million	2016	2015
Interest expense	(2.9)	(2.2)
Foreign exchange losses	(0.3)	(1.5)
Net interest on post retirement benefits	(0.7)	(0.4)
Amortisation of arrangement fees	(0.7)	(0.2)
Finance costs	(4.6)	(4.3)
Interest income	0.2	0.1
Foreign exchange gains	–	1.7
Finance income	0.2	1.8
Net finance costs	(4.4)	(2.5)

6 Profit for the year

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

£million	2016	2015
Depreciation of property, plant and equipment	18.3	15.9
Amortisation of intangible assets[1]	8.8	5.2
Net foreign exchange losses/(gains)	(0.8)	0.3
Cost of inventories recognised as an expense	461.6	417.5
Research and development	23.0	20.4
Staff costs (see note 11)	164.2	149.8
Restructuring (excluded from underlying operating profit)	(0.1)	2.9
Contingent consideration (excluded from underlying operating profit)	–	(0.8)
M&A costs (excluded from underlying operating profit)	1.2	0.8
Impairment of property, plant and equipment and intangibles[2]	1.0	1.9
Remuneration of Group Auditors:		
– audit of these financial statements	0.3	0.3
– audit of financial statements of subsidiaries of the Company	0.6	0.6
– taxation compliance services	0.1	0.2
– other advisory services	0.2	0.1
Government grants credited	(0.5)	(0.4)
Share-based payments[3]	2.7	1.7
Profit on disposal of property plant and equipment[4]	(4.3)	(0.1)

(1) Included within amortisation of intangible assets is £3.5 million (2015: £0.8 million) reported within items excluded from underlying operating profit.

(2) Included within impairment of property, plant and equipment and intangibles is £1.0 million (2015: £0.2 million) vacant property write downs reported within items excluded from underlying operating profit.

(3) Included within share based payments is £nil (2015:£0.2 million) reported within items excluded from underlying operating profit.

(4) Included within profit on disposal of property plant and equipment is £4.3 million (2015: £nil) reported within items excluded from underlying operating profit.

7 Alternative performance measures

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

Alternative performance measures are presented in these financial statements as management 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.

Underlying operating profit

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

	2016		2015	
£million	Operating profit	Tax	Operating profit	Tax
As reported	**27.6**	**(6.5)**	16.3	(3.4)
Restructuring				
Operational Improvement Plan	**(2.9)**	**0.2**	(1.8)	1.1
Other restructuring	**(1.3)**	**0.6**	(0.7)	0.2
Property items	**4.3**	**(0.7)**	–	–
Charges associated with management changes	**–**	**–**	(0.4)	0.1
	0.1	**0.1**	(2.9)	1.4
Asset impairments	**–**	**–**	(1.7)	–
Acquisition related costs				
Contingent consideration	**–**	**–**	0.8	–
Release of divestment provision	**0.9**	**–**	–	–
Amortisation of intangible assets arising on business combinations	**(3.5)**	**0.7**	(0.8)	0.2
Other acquisition related costs	**(1.2)**	**0.2**	(0.8)	0.2
	(3.8)	**0.9**	(0.8)	0.4
Total items excluded from underlying measure	**(3.7)**	**1.0**	(5.4)	1.8
Underlying measure	**31.3**	**(7.5)**	21.7	(5.2)

Restructuring £0.1 million credit (2015: £2.9 million charge)

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

In the year ended 31 December 2015 total restructuring costs of £2.9 million were incurred, of which £1.8 million related to the Operational Improvement Plan, £0.7 million related to other restructuring costs and £0.4 million related to the change of management structure.

Impairments £nil (2015: £1.7 million)

In the year ended 31 December 2015 asset impairment costs of £1.7 million were incurred, relating mainly to the North American resistors business, reflecting the downturn in activity experienced in the second half of the year.

7 Alternative performance measures (continued)

Acquisition related costs £3.8 million (2015: £0.8 million)

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

In the year ended 31 December 2015 acquisition costs amounted to £0.8 million which related to £0.8 million of acquisition related costs, £0.8 million of amortisation of acquired intangible assets and a £0.8 million credit relating to the reversal of an accrual for deferred acquisition consideration.

Free cash flow

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

£million	2016	2015
Net cash flow from operating activities	26.6	25.3
Net cash flow from investing activities	(9.8)	(56.2)
Acquisition of business	–	39.8
Cash with acquired businesses	–	(1.6)
Interest paid	(3.0)	(2.2)
Free cash flow	13.8	5.1

Underlying earnings per share

This is the profit for the year attributable to the owners of the Company adjusted to exclude the items not included within underlying operating profit divided by the weighted average number of shares in issue during the year. See note 10 for the calculation of underlying earnings per share.

Underlying effective tax rate

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

£million	2016	2015
Underlying operating profit	31.3	21.7
Net finance costs	(4.4)	(2.5)
Underlying profit before tax	26.9	19.2
Underlying tax (see above)	7.5	5.2
Underlying effective tax rate	27.9%	27.0%

8 Taxation

a) Analysis of the tax charge for the year

£million	2016	2015
Current tax		
Current income tax charge	6.5	7.1
Adjustments in respect of current income tax of previous year	1.7	(1.5)
Total current tax charge	8.2	5.6
Deferred tax		
Relating to origination and reversal of temporary differences	(1.7)	(2.2)
Total tax charge in the income statement	6.5	3.4

UK tax is calculated at 20.0 % (2015: 20.25 %) 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 28.2 % (the underlying tax rate was 27.9 % (see note 7)).

Included within the total tax charge above is a £1.0 million credit relating to items reported outside underlying profit (2015: £1.8 million).

b) Reconciliation of the total tax charge for the year

£million	2016	2015
Profit before tax from continuing operations	23.2	13.8
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20.0 % (2015: 20.25 %)	4.6	2.8
Effects of:		
Overseas tax rate differences	0.9	0.7
Income not taxable and items not deductible for tax purposes	(1.0)	0.4
Adjustment to current tax in respect of prior years	1.7	(1.5)
Impact on deferred tax arising from changes in tax rates	0.2	0.1
Recognition and utilisation of tax losses and other items not previously recognised	(0.7)	(0.1)
Current year tax losses and other items not recognised	2.5	2.0
Adjustment to value of deferred tax assets	(1.7)	(1.0)
Total tax charge reported in the income statement	6.5	3.4

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

c) Deferred tax

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

£million	2016	2015
Deferred tax assets	6.4	4.9
Deferred tax liabilities	(6.1)	(4.3)
Net deferred tax asset	0.3	0.6

8 Taxation (continued)

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

£million	As at 1 January 2016	Continuing operations	Recognised on acquisition	Recognised in equity/ OCI	Net exchange translation	As at 31 December 2016
Intangible assets	(9.8)	1.0	–	–	(1.1)	(9.9)
Property, plant and equipment	(1.5)	1.2	–	–	(0.5)	(0.8)
Deferred development costs	(1.5)	0.1	–	–	(0.3)	(1.7)
Retirement benefit obligations	4.2	(0.6)	–	(2.1)	0.2	1.7
Inventories	2.3	(0.6)	–	–	0.3	2.0
Provisions	5.3	(1.5)	–	–	0.6	4.4
Tax losses	1.4	0.2	–	–	0.3	1.9
Unremitted overseas earnings	(1.3)	(0.3)	–	–	–	(1.6)
Share-based payments	0.2	0.3	–	0.2	–	0.7
Short-term timing differences	1.3	1.9	–	–	0.4	3.6
Deferred tax asset/(liability)	0.6	1.7	–	(1.9)	(0.1)	0.3

£million	As at 1 January 2015	Continuing operations	Recognised on acquisition	Recognised in equity/ OCI	Net exchange translation	As at 31 December 2015
Intangible assets	(6.3)	0.1	(3.4)	–	(0.2)	(9.8)
Property, plant and equipment	(1.2)	(0.1)	(0.1)	–	(0.1)	(1.5)
Deferred development costs	(1.4)	(0.1)	–	–	–	(1.5)
Retirement benefit obligations	2.6	(0.3)	–	1.9	–	4.2
Inventories	2.1	0.1	–	–	0.1	2.3
Provisions	3.7	1.5	–	–	0.1	5.3
Tax losses	1.4	0.1	–	–	(0.1)	1.4
Unremitted overseas earnings	(1.1)	(0.2)	–	–	–	(1.3)
Share-based payments	(0.1)	0.2	–	0.1	–	0.2
Short-term timing differences	0.3	0.9	–	–	0.1	1.3
Deferred tax asset/(liability)	–	2.2	(3.5)	2.0	(0.1)	0.6

At 31 December 2016, the gross amount and expiry date of losses available for carry forward are as follows:

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

At 31 December 2015, the gross amount and expiry date of losses available for carry forward are as follows:

	Expiring within 5 years	Expiring within 6-10 years	Unlimited	Total
Losses for which a deferred tax asset has been recognised	–	1.9	3.8	5.7
Losses for which no deferred tax asset has been recognised	0.4	2.2	33.0	35.6
	0.4	4.1	36.8	41.3

Included within the £45.3 million (2015: £35.6 million) of unrecognised tax losses in the table above is £20.4 million (2015: £27.0 million) of tax losses within the Company. Since UK tax legislation does not allow the utilisation of brought forward tax losses of one UK entity against the current year tax profits of another UK entity, the use of these tax losses is limited.

At 31 December 2016, the Group had other items for which no deferred tax assets have been recognised of £11.1 million (2015: £15.0 million).

9 Dividends

	2016 pence per share	2016 £million	2015 pence per share	2015 £million
Final dividend for prior year	3.8	6.2	3.8	6.0
Interim dividend for current year	1.7	2.7	1.7	2.7
	5.5	8.9	5.5	8.7

The Directors recommend a final dividend of 3.9 pence per share which when combined with the interim dividend of 1.7 pence per share gives a total dividend for the year of 5.6 pence per share. The Group has a progressive dividend policy. The final dividend will be paid on 2 June 2017 to shareholders on the register on 19 May 2017.

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	2016	2015
Basic earnings per share	10.3	6.5
Diluted earnings per share	10.3	6.5

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

Underlying earnings per share:

£million	2016	2015
Continuing operations		
Profit for the year attributable to owners of the Company	16.7	10.4
Restructuring	(0.1)	2.9
Asset impairments	–	1.7
Acquisition related costs	3.8	0.8
Tax effect of above items (see note 8a)	(1.0)	(1.8)
Underlying earnings	19.4	14.0
Underlying earnings per share (pence)	12.0	8.8

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

Million	2016	2015
Basic	162.2	159.2
Adjustment for share awards	–	0.1
Diluted	162.2	159.3

11 Employee information

The average number of full time equivalent employees (including Directors) during the year from continuing operations was:

Number	2016	2015
By function		
Production	5,053	5,031
Sales and distribution	360	308
Administration	357	340
	5,770	5,679
By division		
Transportation Sensing and Control	1,679	1,800
Industrial Sensing and Control	984	980
Advanced Components	1,723	1,434
Integrated Manufacturing Services	1,384	1,465
Total	5,770	5,679

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

£million	2016	2015
Wages and salaries	127.2	117.5
Social security charges	31.0	27.4
Employers' defined contribution pension costs	2.7	2.4
Defined benefit pension scheme expenses	1.2	0.8
Pension settlement	(0.6)	–
Share based payments expense	2.7	1.7
	164.2	149.8

Remuneration in respect of the Directors was as follows:

£million	2016	2015
Emoluments	1.9	1.8

Further details of individual Directors' remuneration, pension benefits and share awards are shown in the Directors' Remuneration Report on pages 76 to 83

Key management personnel

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

£million	2016	2015
Short-term benefits	5.1	4.4
Pension and other post-employment benefit expense	0.2	0.2
Share based payments	2.0	1.1
	7.3	5.7

In accordance with IAS 24 "Related party disclosures", key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Key management personnel comprise the Directors, Company Secretary and other members of the Executive Management Board. Their compensation is considered and recommended to the Board by the Remuneration Committee.

12 Property, plant and equipment

£million	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2015	54.4	298.2	352.6
Additions	1.4	13.7	15.1
Businesses acquired	0.6	0.6	1.2
Disposals	(0.5)	(22.3)	(22.8)
Transfers	–	(2.4)	(2.4)
Net exchange adjustment	(0.7)	(2.6)	(3.3)
At 1 January 2016	**55.2**	**285.2**	**340.4**
Additions	**2.1**	**16.3**	**18.4**
Disposals	**(8.5)**	**(15.2)**	**(23.7)**
Transfers	**–**	**(2.3)**	**(2.3)**
Net exchange adjustment	**7.3**	**38.7**	**46.0**
At 31 December 2016	**56.1**	**322.7**	**378.8**
Depreciation and impairment			
At 1 January 2015	20.4	238.2	258.6
Depreciation charge	1.8	14.1	15.9
Impairment	–	1.4	1.4
Disposals	(0.4)	(21.7)	(22.1)
Transfers	–	(1.1)	(1.1)
Net exchange adjustment	(0.3)	(1.6)	(1.9)
At 1 January 2016	**21.5**	**229.3**	**250.8**
Depreciation charge	**2.1**	**16.2**	**18.3**
Impairment	**1.0**	**–**	**1.0**
Disposals	**(1.7)**	**(14.7)**	**(16.4)**
Transfers	**–**	**(1.5)**	**(1.5)**
Net exchange adjustment	**3.1**	**31.3**	**34.4**
At 31 December 2016	**26.0**	**260.6**	**286.6**
Net book value			
At 31 December 2016	**30.1**	**62.1**	**92.2**
At 31 December 2015	33.7	55.9	89.6

Included within land and buildings are three (2015: three) investment properties with a carrying value of £0.8 million (2015: £0.8 million). The fair value of these properties is £3.9 million (2015: £3.9 million).

Included within the impairment charge for the year is £1.0 million (2015: £1.2 million) included within items excluded from underlying profit.

The Group identified indicators of impairment at two sites. For one site the net book value of £2.0 million exceeded an external valuation of £1.2 million and as a result an impairment of £0.8 million was recognised. A further vacant site with a net book value of £0.2 million is due for demolition and was impaired as a result.

In 2015 the Group identified indicators of impairment at one site. The net book value of £2.7 million exceeded the £1.5 million value in use and as a result an impairment of £1.2 million was recognised. The key assumptions applied for the value in use calculation were a post-tax discount factor of 9.6 % and an annual growth rate of 1.8 % over a ten year projection period. A 10 % reduction in revenue would result in a £0.1 million increase in the impairment charge.

Capitalised software with a cost of £2.3 million (2015: £2.4 million) and accumulated depreciation of £1.5 million (2015: £1.1 million) has been transferred to intangible assets.

13 Goodwill

£million	
Cost	
At 1 January 2015	69.4
Additions	22.4
Net exchange adjustment	3.1
At 1 January 2016 as reported	94.9
Remeasurement of acquired fair values	0.3
At 1 January 2016 as updated	**95.2**
Net exchange adjustment	**11.3**
At 31 December 2016	**106.5**

Goodwill is attributed to the following cash generating units ("CGUs") in the divisions shown below:

£million	2016	2015
Industrial Sensing and Control:		
Variable Components	**31.0**	26.0
Optoelectronics	**23.2**	19.5
Roxspur	**2.1**	2.1
Advanced Components:		
Aero Stanrew	**22.7**	22.7[1]
Power and Hybrid	**5.8**	5.2
Resistors	**2.4**	2.0
Integrated Manufacturing Services:		
TT electronics integrated manufacturing services, USA	**10.1**	8.5
TT electronics integrated manufacturing services, Suzhou	**5.1**	5.1
New Chapel Electronics, UK	**3.4**	3.4
Other	**0.7**	0.7

(1) Updated to reflect remeasured fair values on the acquisition of Aero Stanrew Group Ltd (see note 4).

The Group tests goodwill impairment annually or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and operating cash projections during the period for which management have detailed plans. Management estimate discount rates using pre-tax rates that reflect current market assessments of the Group's time value of money and the risks specific to the CGU being measured.

As part of the annual budgeting and strategic planning processes, the Group prepares cash flow forecasts for the following five years. In 2016 the growth rate assumed after this five-year period is based on long-term GDP projections capped at long term inflation rates of the primary market for the CGU, in perpetuity. The long-term inflation rate used was 2 % for the UK and US businesses and 2.3 % for the Chinese businesses (2015: 2 % for the UK, US and Chinese businesses).

The growth rates assume that demand for our products remains broadly in line with the underlying economic environment in the long-term future. Taking into account our expectation of future market conditions, we believe that the evolution of selling prices and cost measures put into place will lead to a sustained improvement in profitability which is higher than in recent years.

13 Goodwill (continued)

The pre-tax discount rates used to discount the forecast cash flows are:

	2016	2015
Variable Components	11.9%	12.9%
Optoelectronics	11.8%	13.0%
Roxspur	10.1%	11.0%
Aero Stanrew	10.5%	n/a
Power and Hybrid	11.0%	11.9%
TT electronics integrated manufacturing services, USA	11.9%	13.0%
TT electronics integrated manufacturing services, Suzhou	12.6%	13.6%
New Chapel Electronics, UK	10.5%	11.3%

Following a detailed review, no impairment losses have been recognised in the current or prior year.

The goodwill allocated to each of the CGUs above are considered to be individually significant. After translation using year end foreign exchange rates, these CGUs represent 97% or £103.4 million of the total goodwill balance.

The recoverable amounts exceed the total carrying value of assets for the CGUs by the following amounts:

£million	2016	2015
Variable Components	36.9	23.6
Optoelectronics	63.7	26.4
Roxspur	6.6	12.6
Aero Stanrew	21.0	n/a
Power and Hybrid	29.2	22.5
TT electronics integrated manufacturing services, USA	15.5	11.6
TT electronics integrated manufacturing services, Suzhou	61.3	51.8
New Chapel Electronics, UK	3.1	2.7

The recoverable amounts associated with these goodwill balances have been determined on a value in use basis using conservative assumptions. A value in use test requires comparison of asset carrying values with pre-tax cash flows (which exclude any tax benefit).

A key assumption in the value in use test is the projected performance of the CGUs based on cash flow forecasts. The recoverable amounts associated with the goodwill balances are based on these performance projections, and based on current forecast information do not indicate that any goodwill balance is impaired. If a company's actual performance does not meet these projections this could lead to an impairment of the goodwill in future periods.

Other key assumptions and sensitivities are as follows:

Long-term growth rate

The budget and strategic review for these CGUs have been extrapolated in perpetuity using long-term GDP projections capped at long term inflation rates of the primary market for the CGU. A key assumption in deriving the growth rate is that the businesses will grow in line with the underlying economic environment for the foreseeable future. Revenue would need to decrease annually by the following amounts for the carrying values to be impaired:

	2016	2015
Variable Components	7.4%	9.1%
Optoelectronics	16.4%	12.2%
Roxspur	9.5%	14.8%
Aero Stanrew	2.5%	n/a
Power and Hybrid	15.4%	14.2%
TT electronics integrated manufacturing services, USA	2.4%	6.8%
TT electronics integrated manufacturing services, Suzhou	24.4%	26.0%
New Chapel Electronics, UK	8.2%	0.4%

13 Goodwill (continued)

Discount rate

Sensitivity analysis has determined that the discount rate is an influential assumption on the outcome of the recoverable amount calculation. For the carrying values to be impaired, the discount rate would need to increase to the following amounts:

	2016	2015
Variable Components	21.8%	21.1 %
Optoelectronics	27.4%	22.5 %
Roxspur	17.6%	25.5 %
Aero Stanrew	14.5%	n/a
Power and Hybrid	25.3%	25.3 %
TT electronics integrated manufacturing services, USA	19.5%	20.0 %
TT electronics integrated manufacturing services, Suzhou	41.8%	47.1 %
New Chapel Electronics, UK	17.0%	17.1 %

Cash flows

Sensitivity analysis has also been performed on the operating cash flow projections. Cash flows can be impacted by changes to sales projections, sales prices, direct costs and replacement capital expenditure. In order for the carrying values to be impaired the expected cash flows for every year would need to reduce by the following:

	2016	2015
Variable Components	52.5%	46.2 %
Optoelectronics	65.1%	48.3 %
Roxspur	52.8%	65.7 %
Aero Stanrew	32.4%	n/a
Power and Hybrid	64.0%	61.3 %
TT electronics integrated manufacturing services, USA	45.5%	40.6 %
TT electronics integrated manufacturing services, Suzhou	74.7%	75.8 %
New Chapel Electronics, UK	44.4%	40.0 %

The Directors have not identified any other likely changes in other significant assumptions that would cause the carrying value of recognised goodwill to exceed its recoverable amount.

14 Other intangible assets

£million	Product development costs	Patents, licences and other	Customer relationships	Total
Cost				
At 1 January 2015	32.8	15.4	8.1	56.3
Additions	1.3	2.5	–	3.8
Businesses acquired	–	2.3	16.6	18.9
Disposals	–	(0.1)	–	(0.1)
Transfers	–	2.4	–	2.4
Net exchange adjustment	–	0.1	0.1	0.2
At 1 January 2016	**34.1**	**22.6**	**24.8**	**81.5**
Additions	**1.5**	**5.3**	**–**	**6.8**
Transfers	**–**	**2.3**	**–**	**2.3**
Net exchange adjustment	**2.1**	**0.6**	**0.3**	**3.0**
At 31 December 2016	**37.7**	**30.8**	**25.1**	**93.6**
Amortisation				
At 1 January 2015	27.9	6.6	3.5	38.0
Charge for the year	1.7	2.7	0.8	5.2
Impairment	–	0.5	–	0.5
Transfers	–	1.1	–	1.1
Net exchange adjustment	–	–	0.1	0.1
At 1 January 2016	**29.6**	**10.9**	**4.4**	**44.9**
Charge for the year	**1.9**	**5.0**	**1.9**	**8.8**
Transfers	**–**	**1.5**	**–**	**1.5**
Net exchange adjustment	**1.1**	**0.4**	**0.2**	**1.7**
At 31 December 2016	**32.6**	**17.8**	**6.5**	**56.9**
Net book value				
At 31 December 2016	**5.1**	**13.0**	**18.6**	**36.7**
At 31 December 2015	4.5	11.7	20.4	36.6

Included within patents, licenses and other are intangible assets under construction with a carrying value of £1.6 million (2015: £0.9 million). Included within additions is £1.1 million (2015: £nil) related to new finance leases.

Included within the amortisation charge for the year is £3.5 million (2015: £0.8 million) included within items excluded from underlying profit.

Capitalised software with a cost of £2.3 million (2015: £2.4 million) and accumulated depreciation of £1.5 million (2015: £1.1 million) was transferred from property, plant and equipment.

15 Inventories

£million	2016	2015
Raw materials	**40.1**	41.7
Work in progress	**18.5**	19.5
Finished goods	**21.0**	18.7
	79.6	79.9

Inventories are stated after deduction of a provision for slow moving and obsolete items of £28.8 million (2015: £28.2 million).

16 Trade and other receivables

£million	2016	2015[1]
Trade receivables	77.4	58.9
Prepayments	7.8	5.8
Other receivables	11.6	7.2
	96.8	71.9

(1) Updated to reflect remeasured fair values on the acquisition of Aero Stanrew Group Ltd (see note 4).

Provisions for impairment in respect of trade receivables are shown in note 20(d)(ii).

17 Trade and other payables

£million	2016	2015
Current liabilities		
Trade payables	41.7	38.5
Taxation and social security	4.6	4.3
Other payables, accruals and deferred income	48.5	40.9
	94.8	83.7

£million	2016	2015
Non-current liabilities		
Accruals and deferred income	4.6	4.2
	4.6	4.2

18 Provisions

£million	Operational Improvement Plan	Reorganisation	Legal, warranty and other	Total
At 1 January 2015	12.2	2.1	4.8	19.1
Utilised	(4.9)	(0.6)	(0.6)	(6.1)
Released	(1.4)	–	(0.3)	(1.7)
Arising during the year	–	0.2	1.7	1.9
Exchange differences	(0.5)	0.1	–	(0.4)
At 1 January 2016	5.4	1.8	5.6	12.8
Utilised	(4.5)	(0.2)	(0.7)	(5.4)
Released	(0.1)	(0.4)	(1.0)	(1.5)
Arising during the year	–	0.6	0.3	0.9
Exchange differences	0.5	0.2	–	0.7
At 31 December 2016	1.3	2.0	4.2	7.5

The Operational Improvement Plan provision relates to fundamental restructuring of the manufacturing footprint and sales organisation of the Transportation Sensing and Control and Industrial Sensing and Control divisions. The balance as at 31 December 2016 includes the directors' best estimate of costs to complete the Operational Improvement Plan. The utilisation primarily relates to the transfer of manufacturing at Werne, Germany to our low cost facilities in Timisoara, Romania.

The reorganisation provision primarily relates to the restructuring programme associated with the closure of the Boone, North Carolina operations and costs of site consolidation in the UK for the Industrial Sensing and Control Division and transfers of lines in Advanced Components to low cost manufacturing sites. The charge in the year relates to the line transfer in Advanced Components and site consolidation in the UK for the Industrial Sensing and Control Division. The release in the year relates to the site consolidation in the UK for the IMS division.

Legal, warranty and other claims represent the best estimate for the cost of settling outstanding product and other claims, and warranty provisions created on the disposal of businesses. The release relates to a provision established for warranty liabilities arising from a divestment. The utilisation relates to provision costs associated with the acquisition of a business.

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

18 Provisions (continued)

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

The total provisions are analysed between current and non-current as follows:

£million	2016	2015
Non-current	–	0.2
Current	7.5	12.6
	7.5	12.8

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

19 Borrowings

£million	Maturity	Currency of denomination	Current	Non-current	Total
31 December 2016					
£150 million multi-currency revolving credit facility	**2021**	**GBP**	**–**	**62.0**	**62.0**
	2021	**EUR**	**–**	**17.9**	**17.9**
	2021	**USD**	**–**	**24.3**	**24.3**
AB Mikroelektronik GmbH loan	**2017**	**EUR**	**1.5**	**–**	**1.5**
Finance leases			**0.3**	**0.6**	**0.9**
Loan arrangement fee			**(0.2)**	**(1.2)**	**(1.4)**
Total			**1.6**	**103.6**	**105.2**
31 December 2015					
£75 million multi-currency revolving credit facility	2017	GBP	–	55.0	55.0
	2017	EUR	–	13.3	13.3
$40 million USD bilateral revolving credit facility	2017	USD	–	20.4	20.4
$20 million USD bilateral revolving credit facility	2017	USD	–	6.8	6.8
AB Mikroelektronik GmbH loan	2016	EUR	1.3	–	1.3
Overdrafts			0.6	–	0.6
Finance leases			0.1	–	0.1
Loan arrangement fee			(0.2)	(0.3)	(0.5)
Total			1.8	95.2	97.0

In May 2016 the Group signed a new five year £150 million multi-currency revolving credit facility and a further uncommitted incremental accordion facility of £30 million with a syndicate of 7 banks comprising HSBC, The Royal Bank of Scotland, Barclays Bank, Fifth Third Bank, Comerica Bank, Lloyds Bank and Bank of Ireland to replace the £75 million multi-currency and $60 million US dollar bi-lateral facilities. As at December 2016 £104.2 million of the facility was drawn down. Arrangement fees with a gross cost before amortisation of £1.7 million, and amortised cost of £1.4 million, have been netted off against these borrowings.

The interest margin payable on the facility is based on the Group's compliance with financial covenants (net debt/EBITDA before exceptional items) and is payable on a floating basis above £LIBOR, €LIBOR or $LIBOR depending on the currency of denomination of the loan.

The loan in AB Mikroelektronik GmbH is an export facility loan and used for working capital purposes. As at 31 December 2016, £1.5 million of the £4.6 million facility was utilised (2015: £1.3 million of the £4.0 million facility was utilised).

Undrawn facilities

At 31 December 2016 the total borrowing facilities available to the Group amounted to £228.5 million (2015: £166.3 million). At 31 December 2016 the Group had available £65.2 million (2015: £37.6 million) of undrawn committed borrowing facilities (comprising the main facility £45.8 million (2015: £20.3 million), China £16.3 million (2015: £14.6 million) and Austria £3.1 million (2015: £2.7 million)) and £57.6 million (2015: £31.4 million) of undrawn uncommitted borrowing facilities, representing overdraft lines and the accordion facility.

20 Financial risk management

The main risks arising from the Group's financial instruments are foreign exchange risk, interest rate risk, credit risk and liquidity risk. These risks arise from exposures that occur in the normal course of business and are managed by the Group's Treasury department in close co-operation with the Group's business divisions and operating companies, under the oversight of a Treasury Committee which is chaired by the Chief Financial Officer. The responsibilities of the Group's Treasury department include the monitoring of financial risks, management of cash resources, debt and capital structure management, approval of counterparties and relevant transaction limits, and oversight of all significant treasury activities undertaken by the Group. The Group Treasury department operates as a service centre to the business divisions of the Group and not as a profit centre.

A Group Treasury policy has been approved by the Board of Directors and is periodically updated to reflect developments in the financial markets and the financial exposure facing the Group.

The Group's principal financial instruments comprise borrowings, cash and cash equivalents and derivatives used for risk management purposes. The Group's borrowings, surplus liquidity and derivative financial instruments are monitored and managed centrally by the Group's Treasury department.

The Group's accounting policies with regard to financial instruments are detailed in note 2(p).

a) Derivatives, financial instruments and risk management

The Group uses derivative financial instruments to manage certain exposures to fluctuations in exchange rates and interest rates. The Group does not hold any speculative financial instruments.

The Group is exposed to transactional and translation foreign exchange risk. Transactional foreign exchange risk arises from sales or purchases by a Group company in a currency other than that company's functional currency. Translational foreign exchange risk arises on the translation of profits earned in overseas currencies into GBP and the translation of net assets denominated in overseas currencies into GBP, the Group's functional currency.

To mitigate transactional foreign exchange risk, wherever possible, Group companies enter into transactions in their functional currencies with customers and suppliers. When this is not possible, hedging strategies are undertaken through the use of forward currency contracts for up to one year ahead.

The Group's interest rate management policy is to maintain a balance between fixed and floating rates of interest on borrowings and deposits, and to use interest rate derivatives when appropriate and pre-approved by the Treasury Committee. To meet this objective the Group has entered into a $30 million interest rate swap from floating to fixed in 2014, maturing in 2019.

The forward currency contracts and interest rate swaps have been designated as cash flow hedges and the mark to market valuation of these derivatives at 31 December 2016 is taken to the hedging reserve within equity. At 31 December 2016, the Group had a net derivative financial liability of £1.8 million (2015: £1.1 million).

20 Financial risk management (continued)

b) Foreign exchange risk

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

£million	GBP	USD	Euro	Other	Total
31 December 2016					
Trade and other receivables	**0.1**	**9.2**	**2.0**	**0.1**	**11.4**
Cash and cash equivalents	**0.5**	**9.1**	**1.1**	**1.0**	**11.7**
Borrowings	**–**	**(24.3)**	**(17.9)**	**–**	**(42.2)**
Trade and other payables	**(1.9)**	**(6.2)**	**(1.2)**	**(2.4)**	**(11.7)**
	(1.3)	**(12.2)**	**(16.0)**	**(1.3)**	**(30.8)**
31 December 2015					
Trade and other receivables	0.2	6.8	1.7	0.3	9.0
Cash and cash equivalents	0.1	12.4	1.2	0.4	14.1
Borrowings	–	(28.1)	(13.7)	–	(41.8)
Trade and other payables	(6.0)	(4.7)	(0.9)	(0.8)	(12.4)
	(5.7)	(13.6)	(11.7)	(0.1)	(31.1)

A 10% strengthening of GBP against the following currencies at 31 December would have decreased equity and profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

£million	2016	2015
US dollar	**(0.7)**	(0.8)
Euro	**(1.6)**	(1.2)

A 10% weakening of GBP against the above currencies at 31 December would have had an equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant.

The Group finances operations by obtaining funding through external borrowings and, where they are in foreign currencies, these borrowings may be designated as net investment hedges. This enables gains and losses arising on retranslation of these foreign currency borrowings to be charged to other comprehensive income, providing a partial offset in equity against the gains and losses arising on translation of the net assets of foreign operations.

c) Interest rate risk

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

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

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

At 31 December 2016 24% (2015: 22%) of total debt was at a fixed rate when including the effect of derivatives and the balance was at floating rate.

20 Financial risk management (continued)

£million	Floating rate	Fixed rate	Non-interest bearing	2015 total
Financial assets				
Trade and other receivables	–	–	62.7	62.7
Cash and cash equivalents	40.9	–	–	40.9
Derivative financial instruments	–	–	0.2	0.2
Total financial assets	40.9	–	62.9	103.8
Financial liabilities				
Borrowings (including interest effects of derivatives)	(75.2)	(21.8)	–	(97.0)
Trade and other payables	–	–	(85.9)	(85.9)
Derivative financial instruments	–	–	(1.3)	(1.3)
Total financial liabilities	(75.2)	(21.8)	(87.2)	(184.2)

The interest charged on floating rate financial liabilities is based on the relevant benchmark rate (such as LIBOR). Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Considering the net debt position of the Group at 31 December 2016, any increase in interest rates would result in a net loss in the consolidated income statement, and any decrease in interest rates would result in a net gain. The effect on profit after tax of a 1 % movement in £LIBOR, based on the year end floating rate net cash and with all other variables held constant, is estimated to be £0.7 million (2015: £0.6 million).

d) Credit risk

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

Credit risk relating to trade receivables

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

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

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

There were no material impairments of trade receivables as at 31 December 2016 or 2015. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets.

20 Financial risk management (continued)

(i) Risk for trade receivables by geographical regions

The maximum exposure to credit risk for trade receivables at 31 December by geographic areas was:

£million	2016	2015
Europe (including UK)	47.7	35.8
North America	14.1	10.3
Central and South America	0.9	0.4
Asia	14.3	11.9
Rest of the World	0.4	0.5
	77.4	58.9

(ii) Impairment losses

The ageing of trade receivables at 31 December was:

£million	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
Not past due	66.9	–	50.8	–
Past due 0 – 60 days	10.5	–	7.5	–
Past due 61 – 120 days	0.7	(0.7)	0.9	(0.3)
More than 120 days	–	–	0.3	(0.3)
	78.1	(0.7)	59.5	(0.6)

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

£million	2016	2015
At 1 January	(0.6)	(0.4)
Charged to income statement	(0.4)	(0.4)
Utilised	0.3	0.2
At 31 December	(0.7)	(0.6)

(iii) Credit risk related to other financial assets and cash deposits

Credit risk relating to the Group's other financial assets, principally comprising cash and cash equivalents, other receivables and derivative financial instruments arises from the potential default of counterparties. Credit risk arising from balances with banks and financial institutions is monitored by the Group's Treasury department. Investment of cash and deposits are made only with approved counterparties of high credit worthiness and are reviewed on a regular basis to take account of developments in financial markets.

No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to derivative financial instruments and other receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

£million	2016	2015
Other receivables	4.9	3.8
Cash and cash equivalents	49.8	40.9
Derivative financial instruments (current assets)	0.6	0.2

20 Financial risk management (continued)

e) Liquidity risk

The Group maintains a balance between availability of funding and maximising investment return on cash balances through the use of short-term cash deposits, credit facilities and longer term debt instruments. Management regularly reviews the funding requirements of the Group.

The Group's policy is to centrally manage debt and surplus cash balances.

At 31 December 2016, the Group had £65.2 million of undrawn committed borrowing facilities (2015: £37.6 million) and £57.6 million (2015: £31.4 million) of undrawn uncommitted borrowing facilities.

Maturity of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities, which will be settled on a gross basis, into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

At 31 December 2016, the Group had derivative financial instruments hedging a notional contractual amount of £112.7 million (2015: £71.1 million) of foreign exchange and interest rate cash flows. Of this total amount £85.3 million (2015: £50.8 million) matures within one year.

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2015						
Trade and other receivables	–	61.3	1.4	–	–	62.7
Cash and cash equivalents	40.9	–	–	–	–	40.9
	40.9	61.3	1.4	–	–	103.6
Borrowings	(0.5)	(1.3)	–	(95.2)	–	(97.0)
Trade and other payables	–	(73.6)	(8.1)	(1.5)	(2.7)	(85.9)
	(0.5)	(74.9)	(8.1)	(96.7)	(2.7)	(182.9)

The following are the contractual maturities of borrowings including contractual future interest payments:

£million	Carrying amounts	Contractual cash flows	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years
31 December 2016	**(105.2)**	**(116.1)**	**(4.0)**	**(2.4)**	**(2.4)**	**(2.2)**	**(105.1)**
31 December 2015	(97.0)	(101.4)	(4.4)	(97.0)	–	–	–

f) Fair value of financial assets and liabilities

IFRS 13 "Fair Value Measurement" requires an analysis of those financial instruments that are measured at fair value at the end of the year in a fair value hierarchy. In addition IFRS 13 requires financial instruments not measured at fair value but for which fair value is disclosed to be analysed in the same fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

20 Financial risk management (continued)

f) Fair value of financial assets and liabilities (continued)

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

		2016		2015	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Held at amortised cost					
Cash and cash equivalents	n/a	**49.8**	**49.8**	40.9	40.9
Trade and other receivables	n/a	**82.3**	**82.3**	62.7	62.7
Trade and other payables	n/a	**(97.7)**	**(97.7)**	(85.9)	(85.9)
Borrowings	n/a	**(105.2)**	**(105.2)**	(97.0)	(97.0)
Held at fair value					
Derivative financial instruments (assets)	2	**0.6**	**0.6**	0.2	0.2
Derivative financial instruments (liabilities)	2	**(2.4)**	**(2.4)**	(1.3)	(1.3)
Held at depreciated cost					
Investment properties	2	**0.8**	**3.9**	0.8	3.9

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

– cash and cash equivalents, trade and other receivables, trade and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments;
– the fair value of borrowings is estimated by discounting future cash flows using rates currently available for debt and remaining maturities.
– the fair value of derivative financial instrument assets (£0.6 million) and liabilities (£2.4 million) are estimated by discounting expected future cash flows using current market indices such as yield curves and forward exchange rates over the remaining term of the instrument (level 2); and
– the fair value of investment properties are based on market valuations obtained through third party valuations (level 2).

g) Capital management

The overriding objectives of the Group's capital management policy are to safeguard and support the business as a going concern through the business cycle and to maintain an optimal capital structure by reducing the Group's overall cost of capital. The Board considers equity shareholders' funds as capital.

The Group maintains a balance between availability of funding and maximising investment return on cash balances through the use of short-term cash deposits, credit facilities and longer term debt instruments, and management regularly reviews the funding requirements of the Group.

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

The Group is in a net debt position of £55.4 million (2015: £56.1 million). Included within the debt facilities are certain financial covenants related to net debt/EBITDA before exceptional items and EBITDA before exceptional items/net finance charges for which compliance certificates are produced on a 12 month rolling basis every half year. All financial covenants were fully complied with during the year and up to the date of approval of the financial statements.

21 Retirement benefit schemes

Defined contribution schemes

The Group operates 401(k) plans in North America and defined contribution arrangements in the rest of the world. The assets of these schemes are held independently of the Group. The total contributions charged by the Group in respect of defined contribution schemes were £2.7 million (2015: £2.4 million).

Defined benefit schemes

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

21 Retirement benefit schemes (continued)

Defined benefit schemes (continued)

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

- Maintaining a long term working partnership with the Trustee to ensure strong governance of risks within the UK scheme. The UK scheme is a long term undertaking and is managed accordingly, in order to provide security to members' benefits and value for money to the Group.
- A prudent investment strategy is pursued by seeking risk-rewarded long term returns whilst removing the majority of liability mismatching unrewarded risks. As such, the Group has in place financial hedging that removes the majority of interest rate yield and inflation risk. This reduces the expected impact of a 10bps fall in yields from a circa £9 million increase in deficit down to a circa £2 million increase, thereby reducing volatility. This strategy has been in place for a number of years protecting the UK scheme's position since December 2013 when yields commenced a prolonged decline.
- The Group recognises that seeking rewarded risk returns in its investment strategy could lead to short term fluctuations in funding levels depending on market conditions. The Group considers that by maintaining a good relationship with the Trustee, it will be able to utilise flexibility in the funding regime to even out the impact of short term market underperformance to enhance predictability of Group pension contributions. This creates a suitable balance between the needs of the UK scheme, the Group, and the Members.

The Trustee's investment strategy mitigates the majority of these risks. Market (investment) risk is addressed by diversification across asset classes and managers within those assets classes. With regard to currency risk, the Trustees hedge around 50% of developed market equities, 100% of alternatives and 100% of bonds (excluding local currency emerging market debt).

In addition, the Trustee has a framework in place to hedge a proportion of the Scheme's interest rate and inflation exposures. This framework is managed by investing in both physical and, for efficiency, derivative investments; and currently has a target to hedge 75% of the interest rate and 80% of the inflation linked liabilities. The target hedge level is kept under review and any change would be in consultation with the Group.

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

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

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

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

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

The triennial valuation of the UK scheme as at April 2016 showed a deficit of £46.0 million against the Trustee's funding objective compared with £19.1 million at April 2013. The Company has agreed additional fixed contributions extending to 2020 with the UK Scheme, based on the actuarial deficit at April 2016.

These planned contributions amount to £4.7 million, £4.9 million, £5.1 million and £3.9 million to be paid over the next four years.

In addition, the Company has set aside £3.0 million over the last three years to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme.

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

An actuarial valuation of the USA defined benefit scheme was carried out by independent qualified actuaries in 2016 using the projected unit credit method. Pension scheme assets are stated at their market value at 31 December 2016.

An analysis of the pension deficit by country is shown below:

£million	2016	2015
UK	2.2	18.1
USA	3.5	3.0
	5.7	21.1

21 Retirement benefit schemes (continued)

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

%	2016	2015
Discount rate	2.7	3.8
Inflation rate (RPI)	3.4	3.2
Increases to pensions in payment (LPI 5 % pension increases)	3.3	3.1
Increases to deferred pensions (CPI)	2.4	2.2

The mortality tables applied by the actuaries at 31 December 2016 were S2 tables with 106 % (male)/99 % (female) weighting for pensioners and 109 % (male)/100 % (female) weighting for non-pensioners with a 1.25 % long-term rate of improvement in conjunction with the CMI 2015 projections. The assumptions are equivalent to life expectancies as follows:

Current pensioner aged 65: 87 years (male), 89 years (female).

Future retiree currently aged 40: 89 years (male), 92 years (female).

The mortality tables applied by the actuaries at 31 December 2015 were S1NA tables adjusted by + 1 year, with a 1.25 % long-term rate of improvement in conjunction with the CMI 2012 projections.

A decrease in the discount rate by 0.1 % per annum increases the liabilities by approximately £9.7 million. An increase by 0.1 % per annum in the inflation rate increases the liabilities by approximately £5.4 million; by £2.2 million for pensions in payment and £3.2 million for deferred pensions. An increase in the life expectancy of 1 year increases the liabilities by approximately £20.1 million.

The sensitivities above consider the impact of the single change shown, with the other assumptions unchanged. The inflation sensitivities allow for the consequential impact on the relevant pension increase assumptions. The sensitivity analyses have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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

£million		2016	2015
Equities			
UK	Quoted	2.0	1.7
	Unquoted	13.7	16.1
Overseas	Quoted	39.2	31.5
	Unquoted	121.0	79.2
Government bonds			
UK	Fixed	66.8	39.9
	Index-linked	110.5	54.3
Overseas		30.5	10.3
Corporate bonds		102.4	83.3
Cash and cash equivalents		22.6	71.9
Derivatives		(11.2)	12.5
Other		48.7	41.5
Fair value of assets		546.2	442.2
Present value of defined benefit obligation		(551.9)	(463.3)
Net liability recognised in the Consolidated balance sheet		(5.7)	(21.1)

The scheme assets are unquoted unless otherwise stated and do not include the Group's financial instruments nor any property occupied by, or other assets used by the Group. Derivatives include liability driven instruments taken out to hedge part of the scheme inflation and interest rate risks.

Amounts recognised in the Consolidated income statement are:

£million	2016	2015
Scheme administration costs	1.2	0.8
Net interest cost	0.7	0.4
Settlements and curtailments	(0.6)	–

The actual return on scheme assets was a gain of £122.7 million (2015: loss of £7.4 million).

21 Retirement benefit schemes (continued)

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

£million	2016	2015
Defined benefit obligation at 1 January	463.3	477.3
Interest on obligation	17.2	16.9
Settlements and curtailments	(0.6)	–
Remeasurements:		
Effect of changes in demographic assumptions	(2.5)	–
Effect of changes in financial assumptions	102.2	(12.5)
Effect of experience adjustments	(4.8)	–
Transfer from other non-current liabilities	–	1.4
Benefits paid	(24.8)	(19.8)
Exchange	1.9	–
Defined benefit obligation at 31 December	551.9	463.3
UK	539.8	453.1
USA	12.1	10.2
	551.9	463.3

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

£million	2016	2015
Fair value of schemes' assets at 1 January	442.2	464.9
Interest income on assets	16.5	16.5
Return on assets, excluding interest income	106.2	(23.9)
Contributions by employer	5.8	5.3
Pension scheme expenses	(1.2)	(0.8)
Benefits paid	(24.8)	(19.8)
Exchange	1.5	–
Fair value of schemes' assets at 31 December	546.2	442.2

22 Share capital and other reserves

Share capital

£million	2016	2015
Issued and fully paid		
162,303,075 (2015: 162,019,120) ordinary shares of 25p each	40.6	40.5

The performance conditions for the Long Term Incentive Plan awards and Restricted Share Plan issued in 2013 were not met and, accordingly, no ordinary shares were issued during 2016 in connection with the Long Term Incentive Plan.

The Company issued 283,955 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.3 million, which resulted in an increase in share premium of £0.3 million.

Other reserves

£million	Share options reserve	Merger reserve	Total
At 1 January 2015	1.9	–	1.9
Share based payments	1.6	–	1.6
Deferred tax on share based payments	0.1	–	0.1
New shares issued	–	3.4	3.4
At 31 December 2015	3.6	3.4	7.0
Shared based payments	2.4	–	2.4
Deferred tax on share based payments	0.2	–	0.2
At 31 December 2016	**6.2**	**3.4**	**9.6**

Reserves have been re-presented to transfer £3.4 million on the acquisition of Aero Stanrew Group Limited from share premium to the merger reserve.

23 Share-based payment plans

The Company has the following share-based payment plans in operation at 31 December 2016:

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

a) Long Term Incentive Plans

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

	2016	2015
	Number of share awards	Number of share awards
At 1 January	**5,489,297**	2,543,688
Granted	**2,524,916**	4,049,219
Forfeited	**(1,004,324)**	(750,720)
Vested	**–**	(352,890)
At 31 December	**7,009,889**	5,489,297
Exercisable at 31 December	**–**	–

During 2015 and 2016 grants of awards were made under the LTIP for the issue of shares in 2018 and 2019 respectively. The award is a contingent right to receive shares in the future, subject to continued employment and the achievement of predetermined performance criteria. The performance targets attached to awards require the achievement of earnings per share ("EPS") and total shareholder return ("TSR") targets as detailed in the Directors' Remuneration Report on page 79.

On 16 March and 30 December 2016 grants of awards were made under the LTIP for the issue of up to 2,334,839 shares and 190,077 shares in 2019. On 18 March, 7 September and 23 December 2015 grants of awards were made under the LTIP for the issue of up to 3,687,301 shares, 170,000 shares and 191,918 shares in 2018.

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

The following table lists the inputs to the model:

	2016		2015		
	Shares with a 30 December 2016 grant date	Shares with a 16 March 2016 grant date	Shares with a 23 December 2015 grant date	Shares with a 7 September 2015 grant date	Shares with a 18 March 2015 grant date
Number of awards	**190,077**	**2,334,839**	191,918	170,000	3,687,301
Fair value at grant date	**135.7p**	**134.9p**	137.0p	136.0p	110.6p
Share price at grant date	**163.0p**	**162.0p**	158.8p	156.8p	128.0p
Exercise price	**£nil**	**£nil**	£nil	£nil	£nil
Expected volatility	**27%**	**27%**	40%	40%	40%
Expected weighted average life at 31 December (years)	**3.0**	**2.3**	3.0	2.8	2.3

The award of shares is not affected by the risk free rate of interest since no investment is required by the recipient, and therefore no interest could be earned elsewhere. Expected volatility is based on historical share price movements.

On 16 March 2016 74,779 (18 March 2015: 172,896) notional share awards were granted to senior executives which will ultimately be settled in cash. These awards are subject to the same vesting criteria as the 16 March and 30 December 2016 (18 March 2015) LTIP grants.

The performance conditions for the LTIP grants made in 2013 were not met and, accordingly, no ordinary shares were issued during 2016 in connection with the LTIP.

23 Share-based payment plans (continued)

b) Restricted Share Plan

On 31 October 2013, the Group granted 481,900 shares under a new restricted share plan to certain senior executives. The award is a contingent right to receive shares with 40 % vesting on the third anniversary of the date of the grant and the remaining 60 % vesting in April 2017 subject to continued employment with the Group and the achievement of predetermined performance criteria. The performance targets attached to the awards require the achievement of three equally weighted performance criteria: Revenue Growth Targets, Profit Margin Targets and Return on Capital Employed. The performance conditions associated with the vesting on the third anniversary were not met and, accordingly, no ordinary shares were issued during 2016 in connection with the award.

On 25 March 2014, the Group granted 153,800 shares under the restricted share plan. The award is a contingent right to receive shares with 40 % vesting on the third anniversary of the date of the grant and the remaining 60 % vesting in April 2017 subject to continued employment with the Group and the achievement of predetermined performance criteria. The performance targets attached to the awards require the achievement of three equally weighted performance criteria: Revenue Growth Targets, Profit Margin Targets and Return on Capital Employed. The fair value of the shares at the grant date was 202.0p.

On 22 August 2014, the Group granted 218,626 shares under the restricted share plan. The award is a contingent right to receive shares with 57 % vesting on completion of a 0.66 year period and the remaining 43 % vesting one year later subject to continued employment with the Group. The fair value of the shares at the grant date was 159.8p. Following the completion of the vesting periods the component elements of the award vested in full on 27 April 2015 and 27 April 2016.

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

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

On 30 December 2016 44,465 shares were also granted to a senior executive. The award is a contingent right to receive shares with 50% vesting on completion of a 0.21 year period and the remaining 50 % vesting one year later subject to continued employment with the Group. The fair value of the shares at the grant date was 156.0p.

Details of the restricted share plan awards outstanding during the year are as follows:

	2016	2015
	Number of share awards	Number of share awards
At 1 January	1,613,026	649,326
Granted	44,465	1,015,000
Forfeited	(367,280)	(51,300)
Vested	(124,709)	–
At 31 December	1,165,502	1,613,026
Exercisable at 31 December	–	–

c) Sharesave schemes

The Group operates Sharesave schemes for participating employees in the UK, Germany and Austria under a three-year plan (historically a five year plan was offered which was discontinued during 2013). Employees may purchase the Group's shares at a 20 % discount to the market price on the day prior to the commencement of the offer up to a maximum contribution value of £6,000 (UK) or €6,900 (Germany/Austria) in any one year. Monthly contributions are saved with Lloyds Bank plc, via Equiniti Ltd, the Registrars, in the employee's share savings plan and will only be released to employees who remain in the Group's employment for a period of either three or five years from commencement of the savings contract. Options become exercisable on completion of either the three or five year term or within six months of leaving in certain circumstances.

23 Share-based payment plans (continued)

	Date price set	Market price	Option price	Options outstanding
Germany/Austria	19 April 2011	169.0p	136.0p	18,500
UK	2 September 2011	162.0p	130.0p	19,203
Germany/Austria	31 May 2012	162.0p	130.0p	8,491
UK	31 August 2012	148.0p	119.0p	8,318
UK	30 August 2013	186.0p	149.0p	190,849
Germany/Austria	24 June 2014	192.0p	166.0p	48,632
UK	30 September 2014	167.0p	136.0p	484,698
Germany/Austria	19 October 2015	131.0p	106.0p	76,208
UK	22 September 2015	130.0p	131.0p	460,733
Germany/Austria	26 September 2016	146.25p	117.0p	95,862
UK	25 August 2016	153.0p	123.0p	734,057

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

	2016	2016	2015	2015
pence	UK	Germany / Austria	UK	Germany / Austria
3 year scheme	**31.0**	**35.0**	42.0	48.0

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

	2016	2015
	Number of share awards	Number of share awards
At 1 January	**1,698,511**	1,834,598
Granted	**830,504**	631,026
Forfeited	**(195,922)**	(401,144)
Exercised	**(187,542)**	(365,969)
At 31 December	**2,145,551**	1,698,511
Exercisable at 31 December	**210,052**	164,555

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

The total share-based payment charge for the year (excluding social security charge of £0.5 million (2015: £0.3 million) arising from the above share scheme plans was £2.7 million (2015: £1.7 million).

24 Reconciliation of net cash flow to movement in net debt

£million	Net cash	Borrowings and finance leases	Net debt
At 1 January 2015	39.4	(53.7)	(14.3)
Cash flow	0.3	(41.6)	(41.3)
Non-cash items	–	(0.2)	(0.2)
Exchange differences	0.6	(0.9)	(0.3)
At 1 January 2016	**40.3**	**(96.4)**	**(56.1)**
Cash flow	**5.5**	**(0.6)**	**4.9**
Non-cash items	**–**	**(1.8)**	**(1.8)**
Exchange differences	**4.0**	**(6.4)**	**(2.4)**
At 31 December 2016	**49.8**	**(105.2)**	**(55.4)**

Net cash includes overdraft balances of £nil (2015: £0.6 million).

25 Contingent liabilities

The Group has contingent liabilities amounting to £nil (2015: £0.3 million in respect of performance bonds and guarantees entered into in the normal course of business). The Group is subject to claims which arise in the ordinary course of business. Other than those for which provisions have been made and included within note 18, the Directors consider the likelihood of any other claims giving rise to a significant liability to be remote.

26 Capital commitments

£million	2016	2015
Contractual commitments for the purchase of property, plant and equipment	**3.9**	3.9

27 Operating leases

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

£million	2016	2015[1] (restated)
Fixtures and equipment	**0.6**	0.6
Land and buildings	**4.9**	4.6

1 The land and building lease charge for 2015 has been restated by £1.3 million.

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

£million	2016	2015
In less than one year	**4.0**	3.9
Between one and five years	**7.5**	9.7
After five years	**1.2**	3.4

28 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 2016 or 2015 that have affected the financial position or performance of the Group.

Key management personnel and Directors’ emoluments are disclosed in note 11.

Financial Statements
Company balance sheet
at 31 December 2016

£million	Note	2016	2015
Fixed assets			
Tangible assets	2	**1.1**	0.2
Intangible assets	2	**8.2**	6.2
Investments	3	**96.5**	96.5
Deferred tax asset	11	**1.4**	3.6
		107.2	106.5
Current assets			
Debtors	4	**130.9**	135.7
Cash at bank and in hand		**4.2**	3.2
Current liabilities		**135.1**	138.9
Borrowings	6	**0.3**	–
Creditors: amounts falling due within one year	5	**51.2**	52.4
Net current assets		**83.6**	86.5
Total assets less current liabilities		**190.7**	193.0
Borrowings	6	**0.6**	–
Pension liability	10	**2.2**	18.1
Net assets		**188.0**	174.9
Capital and reserves			
Called up share capital	7	**40.6**	40.5
Share premium account	8	**2.1**	1.8
Merger reserve		**3.4**	3.4
Profit and loss account	9	**141.9**	129.2
Shareholders' funds		**188.0**	174.9

Approved by the Board of Directors on 8 March 2017 and signed on their behalf by:

Richard Tyson
Director

Mark Hoad
Director

Company statement of changes in equity

for the year ended 31 December 2016

£million	Share capital	Share premium[1]	Merger reserve[1]	Profit and loss account	Total
At 1 January 2015	39.8	1.5	–	146.1	187.4
Loss for the year	–	–	–	(0.4)	**(0.4)**
Other comprehensive income					
Remeasurement of defined benefit pension schemes	–	–	–	(11.4)	**(11.4)**
Tax on remeasurement of defined benefit pension schemes	–	–	–	1.9	**1.9**
Total other comprehensive income	–	–	–	(9.5)	**(9.5)**
Transactions with owners recorded directly in equity					
Dividends paid by the Company	–	–	–	(8.7)	**(8.7)**
Share-based payments	–	–	–	1.6	**1.6**
Deferred tax on share-based payments	–	–	–	0.1	**0.1**
New shares issued	0.7	0.3	3.4	–	**4.4**
At 31 December 2015	40.5	1.8	3.4	129.2	**174.9**
Profit for the year	–	–	–	9.7	**9.7**
Other comprehensive income					
Remeasurement of defined benefit pension schemes	–	–	–	11.4	**11.4**
Tax on remeasurement of defined benefit pension schemes	–	–	–	(2.1)	**(2.1)**
Total other comprehensive income	–	–	–	9.3	**9.3**
Transactions with owners recorded directly in equity					
Dividends paid by the Company	–	–	–	(8.9)	**(8.9)**
Share-based payments	–	–	–	2.4	**2.4**
Deferred tax on share-based payments	–	–	–	0.2	**0.2**
New shares issued	0.1	0.3	–	–	**0.4**
At 31 December 2016	**40.6**	**2.1**	3.4	**141.9**	**188.0**

(1) Updated to reflect a re-presentation of reserves.

1 Significant accounting policies

a) Basis of preparation

The financial statements of TT Electronics plc (the "Company") were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of Key Management Personnel; and
- comparative movement tables for tangible and intangible fixed assets.

The accounting policies set out in Note 2 of the Consolidated financial statements have, unless otherwise stated, been applied consistently to all years presented in the Company financial statements.

b) Estimation uncertainty

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as follows:

- Note 10 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions, including future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate. The pension deficit has been calculated using the assumptions set out in note 21 of the Consolidated financial statements; and
- Note 5 – Accruals. The Company makes appropriate provision on a consistent basis for restructuring and other normal trading exposures with estimates being made regarding the timing of future payments.

c) Going concern

Details of the Director's assessment of the Company's ability to continue in operational existence for at least twelve months from the date of signing these financial statements are shown in note 1 of the Consolidated financial statements and in the Governance and Directors' Report on page 53.

d) Investments

Fixed asset investments in subsidiaries are carried at cost less provision for impairment.

e) Own shares held by Employee Benefit Trust

Transactions of the Company-sponsored Employee Benefit Trust are treated as being those of the Company and are therefore reflected in the Company's financial statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

2 Tangible and intangible fixed assets

£million	Intangible assets	Freehold land and buildings	Plant, equipment and vehicles	Total tangible fixed assets
Cost				
At 1 January 2016	10.6	2.2	1.2	3.4
Disposals	(0.1)	–	(0.8)	(0.8)
Additions	4.1	–	1.6	1.6
At 31 December 2016	**14.6**	**2.2**	**2.0**	**4.2**
Depreciation				
At 1 January 2016	4.4	2.2	1.0	3.2
Charge for the year	2.1	–	0.1	0.1
Disposals	(0.1)	–	(0.2)	(0.2)
At 31 December 2016	**6.4**	**2.2**	**0.9**	**3.1**
Net book value				
At 31 December 2016	**8.2**	**–**	**1.1**	**1.1**
At 31 December 2015	6.2	–	0.2	0.2

Included within intangible fixed assets are assets under construction with a carrying value of £1.6 million (2015: £0.9 million).

3 Fixed asset investments

£million	Subsidiary undertakings
Cost	
At 1 January and 31 December 2016	134.3
Provisions	
At 1 January and 31 December 2016	37.8
Net book value	
At 1 January and 31 December 2016	**96.5**

The Company's subsidiary undertakings and their locations are shown in note 14. Shareholdings are held indirectly for all principal operating subsidiary undertakings.

4 Debtors

£million	2016	2015
Amounts owed by subsidiary undertakings	126.8	134.3
Prepayments and accrued income	4.1	1.4
	130.9	135.7

Prepayments and accrued income includes £nil (2015: £0.2 million) of receivables due after more than one year.

5 Creditors

£million	2016	2015
Amounts falling due within one year		
Trade creditors	0.6	1.1
Amounts owed to subsidiary undertakings	44.1	45.7
Taxation and social security	1.1	0.2
Accruals and deferred income	5.4	5.3
Income tax payable	–	0.1
	51.2	52.4

6 Borrowings

£million	Current	Non-current	Total
At 31 December 2016			
Finance leases	0.3	0.6	0.9
At 31 December 2015			
Finance leases	–	–	–

7 Share capital

£million	2016	2015
Issued, called up and fully paid		
162,303,075 (2015: 162,019,120) ordinary shares of 25p each	40.6	40.5

The performance conditions for the Long Term Incentive Plan awards and Restricted Share Plan issued in 2013 were not met and, accordingly, no ordinary shares were issued during 2016 in connection with the Long Term Incentive Plan.

The Company issued 283,955 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.3 million, which resulted in an increase in share premium of £0.3 million.

8 Share-based payments

Details of share-based payments are shown in note 23 of the Consolidated financial statements.

9 Profit/loss for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its profit and loss account for the year. The profit after tax of the Company for the year was £9.7 million (2015: loss of £0.4 million). The auditor's remuneration for audit services is disclosed in note 6 to the Consolidated financial statements.

10 Pension schemes

Defined benefit scheme

The triennial valuation of the UK scheme as at April 2016 showed a deficit of £46.0 million against the Trustee's funding objective compared with £19.1 million at April 2013. The Company has agreed additional fixed contributions extending to 2020 with the Scheme, based on the actuarial deficit at April 2016. These planned contributions amount to £4.7 million in respect of 2017, £4.9 million in respect of 2018, £5.1 million in respect of 2019 and £2.7 million in respect of 2020. In addition, the Company has set aside £3.0 million over the last three years to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme. Further details of the scheme are provided in note 21 to the Group financial statements.

Defined contribution scheme

The Company operates a Group personal pension plan for employees and pays contributions to administered pension insurance plans. The Company has no further payment obligation once the contributions have been paid. Payments to the defined contribution scheme are charged as an expense as they are incurred. The total contributions charged by the Company including employee salary exchange contributions in respect of the year ended 31 December 2016 were £0.5 million (2015: £0.5 million).

11 Deferred tax

The deferred tax asset of £1.4 million (2015: £3.6 million) is made up of an asset of £0.4 million (2015: £3.3 million) in respect of the pension liability, the movement in which has been recognised in profit (£0.8 million charge) and equity (£2.1 million charge), and an asset of £1.0 million (2015: £0.3 million) in respect of share-based payments, the movement in which has been recognised in profit (£0.5 million) and equity (£0.2 million).

At 31 December 2016, the Company had recognised no deferred tax assets on gross tax losses of £13.8 million (2015: £23.2 million) and gross property, plant and equipment temporary differences of £1.3 million (2015: £3.3 million).

12 Commitments under operating leases

The Company has outstanding commitments under non-cancellable operating leases of £0.9 million (2015: £0.1 million), £0.2 million (2015: £0.1 million) falling due in one year and £0.7 million (2015: £nil) falling due between two and five years.

13 Related party transactions

During 2016 and 2015, the Company did not have any related party transactions other than with wholly owned subsidiaries.

14 Subsidiary undertakings

The following entities are 100 % owned with only ordinary shares in issue, unless otherwise stated. The country of incorporation matches the country in which the registered office/principal place of business is located.

Name of subsidiary undertaking	Registered office/ principal place of business
AB Mikroelektronik GmbH	1
TT Electronics Ltd	2
AB Electronics (Suzhou) Co., Ltd	3
AB Elektronik Sensors (Suzhou) Co Ltd	3
TT Electronics Integrated Manufacturing Services (Suzhou) Ltd	3
TT Electronics SAS	4
AB Elektronik GmbH	5
AB Elektronik Sachsen GmbH	6
Midland Electronics Deutschland GmbH	5
TT Electronics GmbH	7
TT Electronics Holdings GmbH	5
TT Electronics China Limited (99 % owned) [a]	8
TT Electronics Sensing and Control India Private Limited	9
TT Electronics Srl	10
BI Technologies Corporation SDN BHD (ordinary and preference shares)	11
AB Electronic Manufacturing Mexico S.A. de C.V.	12
BI Technologies S.A. de C.V.	13
Optron De Mexico S.A. de C.V.	12
TT Electronics Integrated Manufacturing Services SRL	14
TT Electronics Sensing and Control SRL	14
TT Electronics Asia Pte Ltd	15
Aero Stanrew SARL (99.6 % owned)	16
AB Elektronik Ukraine	17
AB Automotive Electronics Limited	18
AB Connectors Limited	19
AB Electronic Components Limited	18
AB Electronic Products Group Limited [a]	18
AB Electronics Limited (in liquidation)	18
AB Elektronik Holdco Limited	18
ABtest Limited	20
Aero Stanrew Group Limited (ordinary and preference shares) [a]	21
Aero Stanrew Limited	21
Automotive Electronic Systems Limited [a]	18
BI Technologies Limited	18
Cable Realisations Limited (in liquidation)	18
Commendshaw Limited	18
Controls Direct Limited	18
Crystalate Electronics Limited	18
Crystalate Holdings Limited (in liquidation) [a]	18
Dale Electric International Limited [a]	18
Deltight International Limited (in liquidation) [a]	18
Deltight Washers Limited	18
E.M.M.E. Limited (in liquidation)	18
Linton and Hirst Group Limited	18
Magnetic Materials Holdings Limited (in liquidation)	18
Midland Electronics Limited	18
MMG Linton and Hirst Limited	18
New Chapel Electronics Limited	22
Nulectrohms Limited	18
Race Electronics Limited (in liquidation)	18
Rodco Limited (60 % owned) [a]	18
Roxspur Measurement & Control Limited	18
Semelab Limited	23
Sensit Limited	18
The Brearley Group Limited	18
TT Asia Holdings Limited	18
TT Electronics Europe Limited [a]	18
TT Electronics Integrated Manufacturing Services Limited	20
TT Electronics Technology Limited	18

14 Subsidiary undertakings (continued)

Name of subsidiary undertaking	Registered office/ principal place of business
TT Group Limited	18
TT Power Solutions Limited	18
TTE Trustees Limited [a]	18
TTG Investments Limited [a]	18
TTG Nominees Limited [a]	18
TTG Pension Trustees Limited [a]	18
TTG Properties Limited [a]	18
Vactite Limited (in liquidation)	18
Welwyn Components Limited	24
Welwyn Electronics Limited	18
Wolsey Comcare Limited	18
AB Elektronik, Inc	25
AB Interconnect, Inc.	26
Apsco Holdings, Inc	27
BI Technologies Corporation	28
Cletronics N.A. Inc,	26
International Resistive Company Inc	26
International Resistive Company of Texas, LLC	26
Optek Technology Inc	26
Shallcross Inc.	27
TT Electronics Integrated Manufacturing Services, Inc	29
TT Group Industries, Inc.	26

1	A-5020 Salzburg, Josef-Brandstatter-Strasse 2, Austria
2	Newton Industrial Park, Christchurch, Barbados, West Indies
3	158-24 Hua Shan Road, Snd Suzhou, 215129, China
4	4 place Louis Armand, 75012 Paris, France
5	Feldmark 50, 59368 Werne, Germany
6	Salztrasse 3, D-001774 Klingenberg, Germany
7	Max-Lehner-Strasse 31, 85354, Freising, Germany
8	36/f, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
9	201-204, 42-B Top Floor Hanuman Lane, Connaught Place, New Delhi-110001, India
10	Via Santa Redegonda N. 11, Milan, Italy
11	Lot 6.05, Level 6, KPMG tower, 8 First Avenue, Bandar Utama 47800 Petaling Jaya, Selangor, Darul Ehsan, Malaysia
12	Rio Bravo 1551-a, Parque Industrial Rio Bravo, CD. Juarez Chihuahua, Mexico
13	Ave Circulo de la Amistad No.102, Parque Industrial Mexicali IV, Mexico
14	Remetea Mare, nr. 637, Olympian Park Timisoara, Hala 4, Partea B, DN6/E70, Timis County, 307350, Romania
15	2 Shenton Way, #18-01 SGX Centre 1, 068804, Singapore
16	60 avenue de l'Uma, La Soukra 2036, Tunisia
17	UA-03164 Kiev, Vul, Generala Naumova 23B, Ukraine
18	Fourth Floor, St Andrews House, West Street, Woking, Surrey, GU21 6EB, England
19	Abercynon, Mountain Ash, Rhondda Cynon Taff, CF45 4SF, Wales
20	Unit 1, Tregwilym Industrial Estate, Rogerstone, Newport, Gwent, NP10 9YA, Wales
21	Unit 1 Gratton Way, Roundswell Business Park, Barnstaple, Devon, EX31 3AR, England
22	London Road, Fairford, Gloucestershire, GL7 4DS, England
23	Coventry Road, Lutterworth, Leicestershire, LE17 4JB, England
24	Welwyn Electronics Park, Bedlington, Northumberland, NE22 7AA, England
25	Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
26	Corporation Service Company, 1013 Centre Road, Wilmington, DE 19805 County of New Castle, United States
27	Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801, United States
28	Corporation Trust Company, 400 Colony Square, Suite 1240, 1201 Peachtree Street, Atlanta GA 30361, United States
29	Corporation Trust Company, 1300 East 9th Street, Cleveland OH 44114, United States

[a] Shares held directly by TT Electronics plc

Five-year record

£million (unless otherwise stated)	2016	2015	2014	2013[1]	2012
Revenue	**569.9**	509.9	524.3	532.2	476.9
Operating profit[2]	**31.3**	21.7	29.2	30.8	28.7
Profit before taxation[2]	**26.9**	19.2	27.6	30.1	25.3
Earnings[2]	**19.4**	14.0	20.5	23.0	18.6
Earnings per share (p)[2]	**12.0**	8.8	12.9	14.6	11.9
Dividends – paid and proposed	**9.0**	8.9	8.7	8.5	7.8
Dividend per share – paid and proposed (p)	**5.6**	5.5	5.5	5.4	5.0
Average number of shares in issue	**162.2**	159.2	158.3	157.6	156.1
Net (debt)/cash	**(55.4)**	(56.1)	(14.3)	26.9	46.7
Total equity	**233.4**	187.4	187.8	203.3	191.1

Notes

(1) Results for 2013 have been re-presented to exclude acquisition related items from underlying profit.

(2) Operating profit, profit before taxation, earnings and earnings per share exclude the impact of restructuring costs, asset impairments and acquisition related costs.

Alternative performance measure definitions

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

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

The Group uses the following alternative performance measures:

Underlying operating profit

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

Free cash flow

Definition: Net cash flow from operating activities less net cash flow from investing activities less interest paid.

Underlying earnings per share

Definition: Profit for the year attributable to the owners of the Company adjusted to exclude the items not included within underlying operating profit divided by the weighted average number of shares in issue during the period. We have chosen EPS as a KPI as it is a standard metric to determine corporate profitability for shareholders. In addition, it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan – see further details on page 76.

Underlying effective tax rate

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

Other definitions

Cash conversion percentage

Definition: Underlying operating cash flow (underlying EBITDA less net capital expenditure, capitalised development expenditure, working capital and non-cash movements) divided by underlying operating profit. Cash conversion measures how effectively we convert profit into cash and tracks the management of our working capital and capital expenditure.

Return on invested capital percentage

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

Operating margin percentage

Definition: Underlying operating profit divided by revenue.

R&D spend

Definition: R&D is defined as the income statement charge for research and development activities expressed as a percentage of revenue. The charge is after accounting for R&D costs capitalised and amortised in the year.

Employee engagement

Definition: We use our employee survey to measure how our employees feel about working in TT using a scale of 1 (low) to 7 (high) against eight factors (as surveyed by Best Companies Ltd).

Safety performance

Definition: Safety performance is defined as the number of occupational injuries resulting in three or more days' absence per 1,000 employees. This KPI allows us to compare our performance with that of our peers. We use a UK benchmark published by the Health and Safety Executive and apply this to all of our facilities worldwide, reflecting our commitment to raising standards globally.

Organic revenue/operating profit growth

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

Earnings per share (EPS)

Definition: EPS is calculated as profit before exceptional items from continuing operations attributable to shareholders, divided by the weighted average number of shares in issue during the year. We have chosen EPS as a KPI as it is a standard metric to determine corporate profitability for shareholders. In addition, it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan – see further details on page 76.

Return on invested capital

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

Additional Information
Glossary

Other terms

AGM	Annual General Meeting
ASIC	Application-specific Integrated Circuit
ATM	Automated Teller Machine
AUSA	Association of United States Army
BE Inspired	a TT initiative to deliver improved employee performance
BE Lean	a TT initiative to improve operational efficiency
BE TT	Build Expertise in TT
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CREST	Certificateless Registry for Electronic Share Transfer
CSR	Corporate and Social Responsibility
DEFRA	Department for Environment, Food and Rural Affairs
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EBT	Employee Benefit Trust
EICC	Electronics Industry Citizenship Coalition
EMB	Executive Management Board
EPS	Earnings Per Share or Electronic Power Steering (as the context requires)
EU	European Union
EVP	Executive Vice President
EV	Electric Vehicle
FRS	Financial Reporting Standards
FTSE	Financial Times Stock Exchange
GBP	Pounds Sterling (£)
GDP	Gross Domestic Product
HEV	Hybrid Electric Vehicle
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IMS	Integrated Manufacturing Services
IS&C	Industrial Sensing and Control
KPI	Key Performance Indicator
LED	Light Emitting Diode
LIBOR	London Interbank Offered Rate
LLP	Limited liability partnership
LTIP	Long Term Incentive Plan
MLP	Master Lean Practitioner
M&A	Mergers and Acquisitions
NASA	National Aeronautical and Space Administration
NBS	New Bridge Street
NED	Non-Executive Director
OEM	Original Equipment Manufacturer
OIP	Operational Improvement Plan
R&D	Research and Development
RNS	Regulatory News Service
RSP	Restricted Share Plan
STEM	Science, Technology, Energy and Mathematics
the Board	The Board of Directors of TT Electronics plc
the Code	UK Corporate Governance Code
the Company	TT Electronics plc
the Directors	The Directors of TT Electronics plc
the Group	TT Electronics plc and its subsidiaries
TSR	Total Shareholder Return
TS&C	Transportation Sensing and Control
TT	TT Electronics plc
UK	United Kingdom of Great Britain and Northern Ireland
USA/US	United States of America

Shareholder information

Annual General Meeting
The Annual General Meeting will be held on 12 May 2017 at 11.30am at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD.

Results
Announcement of 2017 half year results – mid-August 2017.

Preliminary announcement of 2017 results – mid-March 2018.

Annual Report 2017 – to be posted mid April 2018.

Dividends
For the year ending 31 December 2016, the Board has recommended increasing the final dividend to 3.9 pence per share. This, when combined with the interim dividend of 1.7 pence per share, gives an increased total dividend of 5.6 pence per share (2015: 5.5 pence per share). Payment of the final dividend will be made on 2 June 2017 to shareholders on the register on 19 May 2017.

Multiple accounts on the shareholder register
If you have received two or more copies of this document, this means that there is more than one account in your name on the shareholder register. This may be caused by either your name or address appearing on each account in a slightly different way. For security reasons, the Registrars will not amalgamate the accounts without your written consent.

If you would like any multiple accounts combined into one account, please write to Equiniti Limited at the address given below.

Share dealing services
Shareview Dealing is a telephone and internet service provided by Equiniti. It offers a simple and convenient way of buying and selling TT Electronics plc shares.

Log on to www.shareview.co.uk/dealing or call 0845 603 7037 between 8.00 am and 4.30 pm, Monday to Friday (except bank holidays), for more information about this service and for details of the rates and charges. Please note that telephone lines remain open until 6.00 pm for enquiries.

A weekly postal dealing service is also available and a form together with terms and conditions can be obtained by calling 0371 384 2248*. Commission is 1.75 per cent with a minimum charge of £60.

ShareGift
ShareGift is a charity share donation scheme for shareholders, administered by The Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomical to sell on a commission basis. Further information can be obtained at www.sharegift.org or from Equiniti.

Shareholder enquiries
Equiniti maintain the register of members of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone 0371 384 2396* (or +44 121 415 7047 if calling from outside the United Kingdom)
Fax 0371 384 2100*

Textphone for shareholders with hearing difficulties 0371 384 2255*

Equiniti also offer a range of shareholder information on-line at www.shareview.co.uk

*Lines are open from 8.30 am to 5.30 pm, Monday to Friday (except bank holidays).

Website
Information on the Group's financial performance, activities and share price is available at www.ttelectronics.com

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