2020 Interim Results, 6 August 2020

TT Electronics plc

Results for the half-year ended 30 June 2020

For further information, please contact:

TT Electronics
Richard Tyson, Chief Executive Officer
Mark Hoad, Chief Financial Officer
Julian Wais, Head of Investor Relations and Communications Tel: +44 (0)1932 827 779

MHP Communications
Tim Rowntree / Rachel Mann Tel: +44 (0)20 3128 8100

A pre-recorded management presentation for analysts and investors will be available today from 07.00 and can be accessed on https://www.ttelectronics.com/investors/investor-highlights/reports-presentations-videos/. This will be followed by a moderated Q&A session commencing at 08.30, which can be accessed by dialling +44 (0)330 336 9126, confirmation code 9393105. A recording of the Q&A session will be available on the website later in the day.

A PDF of this half-year announcement is available for download from https://www.ttelectronics.com/investors/investor-highlights/reports-presentations-videos/.

Interim Results for the half-year ended 30 June 2020

A resilient performance with an encouraging medium-term outlook

Summary

- As a result of actions taken, TT entered the pandemic well placed to withstand its impact and emerge strongly
- Decisive and well executed response to COVID-19
    - Operational throughout due to actions and essential nature of products
    - Employees protected, costs reduced, cash spend minimised
    - Gradual recovery in organic revenue through the second quarter, after April low point; all sites now open and capacity improving
- Actively progressing strategy execution
    - Significant self-help programme extended and underway, with expected 2023 run-rate benefits of £11-12 million
    - Continued R&D investment at 5.0 per cent (2019: 5.4 per cent) of revenue[1] for future growth
- Confidence in medium-term outlook and continuing to improve the quality of TT
    - Robust balance sheet with substantial covenant and liquidity headroom
    - Organic revenue growth and margin enhancement
    - Disciplined M&A

£ million (unless otherwise stated)	Underlying[1]				Statutory	
Continuing operations	**H1 2020**	H1 2019	Change	Change constant fx[1]	**H1 2020**	H1 2019
Revenue	**210.0**	238.2	(12)%	(12)%	**210.0**	238.2
Operating profit/(loss)	**11.4**	19.2	(41)%	(41)%	**(2.9)**	6.9
Operating profit margin (%)	**5.4%**	8.1%	(270)bps	(270)bps	**(1.4)%**	2.9%
Profit/(loss) before taxation	**9.5**	17.4	(45)%	(46)%	**(4.8)**	5.1
Earnings/(loss) per share (pence)	**4.8p**	8.8p	(45)%	(47)%	**(2.7)p**	3.3p
Interim dividend per share (pence)					**-**	2.1p
Return on invested capital[1]	**9.0%**	11.3%				
Cash conversion[1]	**61%**	28%				

	H1 2020	H1 2019
Free cash flow	**(5.2)**	(9.2)
Net debt	**(89.0)**	(69.1)
Net debt/underlying EBITDA[1]	**1.6x**	0.9x

Richard Tyson, Chief Executive Officer, said:

"Our people have responded exceptionally well to the challenges presented by COVID-19. The improvements we have made, positioning the business in higher technology, structural growth markets and delivering essential products to our customers, have allowed us to navigate the impact more effectively. Given the extent of the disruption around the world, the trading performance of the business in the period has been resilient, and we have retained a robust balance sheet. All our manufacturing sites are open and gradually returning to full capacity.

Our current expectation is that we will see improvement in the second half. There remains a range of possible outcomes for the year and, in light of this, our intention is to recommend a dividend at the 2020 year-end results announcement taking account of our performance for the year as a whole.

We have taken significant actions to improve TT's long-term profitability and we will continue to create value through organic investment and acquisitions. The business is positioned in markets which will benefit from structural growth trends and where sustainability is driving further opportunities. This gives us confidence in the long-term future of the business."

About TT Electronics

TT Electronics is a global provider of engineered electronics for performance-critical applications.

The company operates in industries where there are structural growth drivers, working with market-leading customers primarily in aerospace and defence, medical and industrial sectors. Products designed and manufactured include sensors, power management devices and connectivity solutions. TT has design and manufacturing facilities including in the UK, US, Mexico, Sweden and Asia.

The company has three divisions. The Power and Connectivity division designs and manufactures power application products and connectivity devices which enable the capture and wireless transfer of data. We collaborate with our customers to develop innovative solutions to optimise their electronic systems. The Global Manufacturing Solutions division provides manufacturing services and engineering solutions for our product divisions and to customers that often require a lower volume and higher mix of products. We manufacture complex integrated product assemblies for our customers and provide engineering services including designing testing solutions and value-engineering. The Sensors and Specialist Components division works with customers to develop standard and customised solutions including sensors and power management devices. Our solutions improve the precision, speed and reliability of critical aspects of our customers' applications.

Note

1. *Throughout this announcement we refer to a number of alternative performance measures which provide additional useful information. The Directors have adopted these measures to provide additional information on the underlying trends, performance and position of the Group with further details set out on page 35. The adjusted measures used are set out in the glossary on pages 41 to 49.*

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

Our work since 2017 to reposition the portfolio meant we entered 2020 in a strong strategic and financial position, and we took decisive action to respond quickly and effectively to the COVID-19 outbreak. We have mitigated its impacts on the business and retained the financial and operational flexibility to pursue value creation through organic investment, as well as inorganic opportunities.

As a result of our early experiences managing COVID-19 at our operations in China, we were able to roll-out a framework of effective controls across TT's international locations. Our actions have helped us to protect our workforce and their families and enabled us to continue to deliver our essential products to customers, with just a few sites temporarily closed.

We have now commenced the execution of a significant self-help programme initially announced in March. This programme has been extended to take account of subsequent changes to demand patterns and it will reduce our fixed cost base and our carbon footprint. Having responded to the short-term issues created by COVID-19, we are continuing to progress the execution of our strategy.

Medium-term demand projections in our target markets have reinforced the conviction in our strategy. We are positioned in structural growth markets, each with a sustainable world at their heart. These include aerospace and defence, medical and industrial robotics and automation markets. Our focus is on providing products and services for critical applications, which deliver cleaner and smarter solutions, and which promote personal wellbeing.

Results and operations

Group revenue was £210.0 million in the period with organic revenue 14% lower. Underlying operating profit was £11.4 million, down 41 per cent at constant currency, largely reflecting COVID-19 disruption and inefficiencies. After the impact of adjusting items including restructuring, the Group's statutory operating loss was £2.9 million.

The Group's monthly organic revenue[1] performance showed a gradual recovery through the second quarter, following the first half low point in April. All sites are now open, and our overall operational capacity is improving, as shielded and vulnerable employees gradually return to work.

Organic revenue in the period was lower because of the impact of COVID-19. Against this backdrop, we saw another comparatively resilient performance from Global Manufacturing Solutions with organic revenue 10 percent lower. This was better than the Group average due to the ramp-up of new business previously won in North America, its exposure to more resilient Asian markets and a focus on the right customers, delivering critical products in essential market areas. In Power and Connectivity organic revenue was 19 percent lower and in Sensors and Specialist Components 16 percent lower. This result was driven by the divisions' exposure to commercial aerospace and industrial markets, temporary shutdowns at a few facilities and operating constraints as a result of shielding vulnerable employees.

During the period, we have controlled our costs, including implementing a hiring freeze, eliminating discretionary expenditure and limiting our capital expenditure to essential items only, as well as implementing a temporary Board pay reduction. In addition, during the second quarter, we accepted some of the available labour support from the UK government, while we had a significant number of UK employees shielding. This amounted to £1.1 million in total and we stopped this support from the end of June 2020. We have no plans to claim the UK government job retention bonus.

Our cash management actions have helped us to preserve cash, with underlying operating cash conversion of 61 percent and an underlying operating cash inflow of £7.0 million in the period.

Financing, liquidity and debt

We entered 2020 with a robust balance sheet, including a defined benefit pension scheme fully funded on an actuarial basis. At 30 June 2020 net debt was £89.0 million (31 December 2019: £69.1 million), including IFRS 16 lease liabilities of £15.7 million (31 December 2019: £17.6 million). The increase in net debt was largely due to £14.2 million ($18.7 million) of payments, including normal working capital adjustments, relating to the Covina Power Solutions acquisition which completed in early January 2020.

At 30 June 2020, net debt/underlying EBITDA was 1.6 times, within the Board's target leverage of 1-2 times net debt/underlying EBITDA. Our £180.0 million of debt facilities mature in November 2023 and this provides us with ample liquidity, with available cash and undrawn facility headroom of £93.8 million at 30 June 2020. Taken together, this provides good financial flexibility, enabling us to take advantage of opportunities in this uncertain environment.

Globally, COVID-19 infection remains widespread and, in many geographies, rates are still rising. The global outlook remains extremely hard to predict. Accordingly, we are focused on pursuing all available actions to minimise our leverage ratio and maximise our liquidity headroom in order to navigate all risk scenarios.

Dividend

The Board has decided, taking into account the disruption from COVID-19 and our desire to retain flexibility and preserve the Group's financial strength, not to pay an interim dividend for 2020.

It is the Board's intention to recommend the payment of a dividend in respect of the full year 2020. The amount of this dividend will be determined at the time of our final results announcement in the first quarter of 2021 and will take account of our financial performance for the year as a whole.

Our markets

Our strategy is to grow TT and create value for our stakeholders including customers, employees, the communities in which we operate and shareholders. We do this by focusing on building positions in our target markets of aerospace and defence and medical, and in industrial applications[1] where there

[1] *TT's other markets are 10% of H1 2020 revenue and include rail and metro infrastructure, electric, hybrid and other vehicles.*

are advanced technology requirements. Although, we have seen significant market disruption in the period, the long-term attractiveness of these markets is intact. We believe some of the positive trends previously evident in these markets will be accelerated in the coming years, as the lessons from the COVID-19 outbreak are applied.

In aerospace and defence (22 per cent of Group revenue in H1 2020) , the commercial aerospace market is undergoing a production reset as a result of COVID-19 adversely impacting demand. Nonetheless, we anticipate seeing a gradual recovery over several years and expect our capabilities, which focus on fuel efficiency and safety, to remain a priority. The defence market has been largely unaffected by the pandemic and has continued to grow with strong US Department of Defense investment outlays in the period. The outlook for defence over the next few years remains positive, with budgets and spending largely driven by geo-political and security considerations. The need for TT's electronics and the ability to design and manufacture smaller, and lighter products will remain.

In medical (24 per cent of Group revenue in H1 2020), there has been a short-term focus on providing solutions to combat the COVID-19 outbreak. During the peak of the outbreak we worked with different cross-sector teams to provide urgently needed products. We used this opportunity to showcase TT's capabilities, and this has resulted in further business opportunities. Elsewhere, large installations for hospital or life science applications, and products for elective applications have been deferred into 2021 and beyond. Nonetheless, the need for more and better medical equipment and for improved efficiency remains a priority around the world. COVID-19 has reinforced the need for telemedicine, device connectivity and remote patient monitoring capabilities, among others. These are all TT specialisms.

In industrial markets (44 per cent of Group revenue in H1 2020), which have been impacted by reduced physical access to sites and assets during the pandemic, the limitations of traditional ways of working have become clear. In the aftermath of the pandemic, we expect certain technologies, including automation; robotics; remote asset tracking, monitoring, inspection and control to become even more important. TT has a diverse set of capabilities today that can meet this future demand.

Margin enhancement

We remain confident in our journey to double-digit Group operating margins and this continues to be driven primarily by three factors:

- Operational leverage from organic revenue growth;
- Reductions in our fixed costs; and
- Inorganic expansion to develop our technology offerings and market positions.

A key part of our plans to deliver double digit margins is our self-help programme, which will reduce our footprint and fixed cost base. As previously announced, given the weakness in certain end-markets, we have expanded the original 2020 programme to include additional headcount reductions. The overall cash cost is expected to be circa £18 million, of which just over £8 million will be spent in 2020, with the remainder primarily in 2021. Initial benefits from the programme will be realised in 2020 and 2021, helping to mitigate the slowdown in weaker end-markets. These will build to the expected full run-rate benefits of £11-12 million in 2023.

The total expense for the self-help programme is anticipated to be £24 million, with £14 million incurred in 2020. In addition to the cash costs above, this incorporates non-cash items, primarily asset and inventory write-downs and the impairment of intangibles.

The programme includes the closure of our Barbados, Corpus Christi (Texas) and Lutterworth (UK) sites. It further consolidates our manufacturing footprint, making us more efficient and reducing our carbon emissions. At the same time, we are rationalising and taking end-of-life some products and relocating the manufacture of other product lines within our existing footprint. This will enable us to serve customers better and achieve an improved level of profitability. Taken together, all these actions will result in a net reduction of around 500 in our employee headcount. This is a reduction on the 31 December 2019 Group headcount of approximately 11 per cent.

Technology investment

Investment in Research & Development (R&D) is one of our top capital allocation priorities, recognising its importance as a contributor to value-add revenue growth. We have continued to invest in this area with R&D spend of £5.7 million (2019: £7.1 million) in the period. This amounts to 5.0 percent (2019: 5.4 percent) of aggregate revenue in Power and Connectivity and Sensors and Specialist Components.

We are bringing a pipeline of exciting new opportunities to market. A few examples of this include:

- Within Power and Connectivity, TT has been selected as the primary supplier for the custom design of a miniature High Voltage Transformer and Inductor assembly for a next generation implantable cardiac rhythm management device. This opportunity builds on TT's expertise in this growing medical market, leveraging the design expertise at its Minneapolis (Minnesota) facility and manufacturing capabilities at its Kuantan (Malaysia) facility;

- Also, within Power and Connectivity, TT has launched its innovative S-2 Connect (speed to connect) system, enabling customers to deploy an 'Internet of Things' strategy quickly and cost effectively. S-2 Connect has multiple applications including asset and cargo tracking; remote energy, security and temperature monitoring; rail communications; wearable technologies and home healthcare applications. The division has already won its first major contract award, helping to support the roll-out of a low carbon and energy efficiency programme across a residential property estate;

- Within Sensors and Specialist Components, TT is bringing to market its Defibrillation Pulse Chip Resistor (DPCR). This is the only pulse chip resistor in the market today that is aimed specifically at defibrillator applications. The DPCR protects the sensitive monitoring equipment attached to patients from electrical pulses and increases the effectiveness of defibrillation. It is currently undergoing approval testing at a number of global medical equipment suppliers.

In addition, Power and Connectivity received a contract award in the period for the development of a power converter for a European military aerospace platform, in conjunction with a major defence customer. The division has also been supporting the development of a non-clinical virus testing device which is undergoing field trials.

M&A strategy and vision

Another important piece of our strategy is M&A. We have a successful track record, creating value and increasing the quality of TT. We have invested in attractive, growing and higher margin segments that we know well and where we have competitive advantage. Our acquisition strategy enables us to penetrate new geographic markets, acquire new customers and create synergies.

We are really pleased with the performance of our recent acquisitions, Power Partners (completed March 2019), based in Boston (Massachusetts), and the Covina (California) based power supply business of Excelitas Technologies Corp. (completed January 2020). Since acquisition, Power Partners has won new medical and connectivity work, and this success has continued in the period. The Covina business has already won its first award under TT ownership, for the development of a customised power supply product for a military aircraft upgrade. This was the result of its introduction to an existing TT customer, giving further confidence in our North American strategy. This strategy has added to our competitive advantage, enabling us to beat an incumbent with our enhanced capability.

Our M&A strategy is helping us to build our power solutions capabilities in North America and is accelerating our success in this higher margin growth market. We see good opportunities to continue to build on this success.

We have retained our financial flexibility and we act with discipline. We are actively monitoring an improved pipeline of potential opportunities.

Outlook

Our people have responded exceptionally well to the challenges presented by COVID-19. The improvements we have made, positioning the business in higher technology, structural growth markets and delivering essential products to our customers, have allowed us to navigate the downturn more effectively. Given the extent of the disruption around the world, the trading performance of the business in the period has been resilient, and we have retained a robust balance sheet. All our manufacturing sites are open and gradually returning to full capacity.

Our current expectation is that we will see improvement in the second half. There remains a range of possible outcomes for the year and, in light of this, our intention is to recommend a dividend at the year-end taking account of our performance for the year as a whole.

We have taken significant action to improve TT’s long term profitability and we will continue to create value through organic investment and acquisitions. The business is position in markets which will benefit from structural growth trends and where sustainability is driving further opportunities. This gives us confidence in the long-term future of the business.

BOARD

On 6 May 2020, Warren Tucker succeeded Neil Carson as Chairman. On 3 April Stephen King, Senior Independent Director, announced he will be stepping down from the Board in September 2020, after nine years' service. As a consequence, Jack Boyer became Senior Independent Director with Anne Thorburn becoming Chair of the Audit Committee.

FINANCIAL OVERVIEW

Group revenue was £210.0 million (2019: £238.2 million) and this included favourable currency translation of £1.0m and a contribution from acquisitions of £4.9 million. Group organic revenue was 14 per cent lower than H1 2019 with lower sales volumes, including in commercial aerospace and industrial markets, although defence markets remained strong.

The Group's statutory operating loss was £2.9 million (2019: £6.9 million profit) and included restructuring costs of £11.4 million (2019: £8.2 million, including £0.4 million of pension contributions). The restructuring costs predominantly relate to the expanded 2020 self-help programme, comprising £5.2 million related to severance costs, £4.9 million of intangible and fixed asset write-downs as a direct result of the restructuring and £1.3 million of other restructuring costs.

In addition, also included within the operating loss, there was amortisation of intangible assets arising on business combinations of £2.0 million (2019: £2.6 million) and other acquisition and integration related costs of £1.9 million (2019: £1.5m). There was a £1.0 million credit (2019: £nil) relating to the full and final settlement of product warranty claims relating to the Transportation business divestment in 2017.

Underlying operating profit was £11.4 million (2019: £19.2 million) being adversely impacted by the lower sales volumes above. There were operating inefficiencies as a result of site closures as well as shielding vulnerable employees, and from additional operating controls and measures put in place in response to COVID-19. These were partially offset by lean initiatives, cost reduction across the divisions and government furlough monies received. Also included within underlying operating profit were unallocated corporate costs of £3.3 million (2019: £3.5 million).

The net finance cost was £1.9 million (2019: £1.8 million). The Group's overall tax credit was £0.4 million (2019: £0.2 million credit), including a £2.1 million credit on items excluded from underlying profit (2019: £3.2 million credit). The underlying tax charge was £1.7 million (2019: £3.0 million), resulting in an effective underlying tax rate of 17.5 per cent (2019: 17.2 per cent).

Basic earnings per share (EPS) was a loss of 2.7 pence (2019: 3.9 pence profit) being adversely impacted by the net specific adjusting items set out above. Underlying EPS decreased to 4.8 pence (2019: 8.8 pence), reflecting the lower underlying operating profit in the period.

The net accounting surplus under the Group's defined benefit pension schemes increased to £35.2 million (31 December 2019: £16.6 million surplus). The increase included higher than expected returns on plan assets, with an increase in the value of liability hedging assets, primarily due to the significant fall in gilt yield. There were also £2.7 million of scheduled deficit reduction contributions in the period. The surplus increase was partially offset by other movements, including the impact of changes in discount rate and inflation assumptions, due to falling corporate bond yields

Underlying operating cash flow was £7.0 million (2019: £5.4 million). Despite lower profitability, the increase in part reflected the Group's tight cash management with lower capital and development expenditure at £4.5 million (2019: £9.3 million). There was a working capital outflow of £9.4 million (2019: £15.1 million outflow) as reduced demand and customer order deferrals adversely impacted planned inventory reductions, as well as resulting in lower payables. However, there was an inflow during the period from lower receivables as a result of reduced revenue and from close management of amounts due from customers. Underlying operating cash conversion was 61 per cent (2019: 28 per cent).

There was a free cash outflow of £5.2 million (2019: £9.2 million outflow), including £4.7 million (2019: £3.2 million) of payments relating to the new self-help programme. Pension payments in the period were lower at £2.7m (2019: £6.0 million), with the prior period including a one-off £3.4m payment relating to the merger of the Stadium Group Retirement Benefits Plan (1974) scheme into the TT Group scheme.

Not included within free cash flow were acquisition payments of £14.6 million (2019: £2.3 million) reflecting the January 2020 acquisition of the power supply business of Excelitas Technologies Corp. and deferred consideration relating to a prior period acquisition. There was no dividend payment in the period (2019: £7.4 million).

At 30 June 2020 the Group's net debt was £89.0 million, including lease liabilities (31 December 2019: £69.1 million). Net debt/underlying EBITDA was 1.6 times (31 December 2019: 0.9 times).

DIVISIONAL REVIEW

POWER AND CONNECTIVITY

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

	H1 2020	H1 2019	Change	Change constant fx
Revenue	**£60.0m**	£67.6m	(11)%	(12)%
Underlying operating profit[1]	**£4.4m**	£7.2m	(39)%	(40)%
Underlying operating profit margin[1]	**7.3%**	10.7%	(340)bps	(340)bps

[1] See note 1 on page 3 for an explanation of alternative performance measures. Adjusting items are not allocated to divisions for reporting purposes. For further discussion of these items please refer to note 6 on page 35 of this document.

Revenue decreased by £8.0 million at constant currency to £60.0 million (2019: £68.0 million at constant currency). This included a £4.9 million aggregate contribution from the Covina power supply business of Excelitas Corp. and the full impact of the Power Partners acquisition. Organic revenue was 19 percent lower. Organic revenue was adversely impacted by lower volumes from commercial aerospace customers and a slow-down in industrial demand overall, including demand for installed products across a number of industrial subsegments. Demand in defence markets, particularly in the US, remained strong.

Trading was also impacted during April and May by the temporary closure of the division's manufacturing sites in Kuantan (Malaysia) and in Tunis (Tunisia) due to local authorities enforcing a COVID-related general lockdown. In addition, there were operating constraints and inefficiencies at sites, primarily having an impact in the second quarter. This was as a result of shielding vulnerable employees and from the implementation of additional operating controls and social-distancing measures in response to COVID-19.

Underlying operating profit decreased by £2.9 million at constant currency to £4.4 million (2019: £7.3 million at constant currency). There was a profit contribution of £0.7 million from acquisitions. The reduction in underlying operating profit reflected the impact of lower sales volumes and the operating inefficiencies described above. These were partially mitigated by actions taken, including lean initiatives and a reduction in discretionary expenditure. The underlying operating margin was 7.3 per cent (2019: 10.7 per cent).

The closure of the division's Lutterworth (UK) site is expected to be completed by the end of 2021. A separate headcount reduction programme has also commenced in the division, impacting sites where demand has fallen significantly, including commercial aerospace and certain industrial markets.

Strong progress continues to be made in international defence markets with some significant awards in the period including:

- The first award for the Covina acquisition under TT ownership. This is to develop a customised power supply product for the upgrade of a military aircraft. The award was the result of an introduction to an existing TT customer. This is further evidence that the North American strategy is working as it has added to the division's competitive advantage, enabling it to beat an incumbent with an enhanced capability;

- A contract award for the development of a power converter for a European military aerospace platform in conjunction with a major defence customer. This award is evidence of TT's growing capabilities beyond component level products.

In addition, the division has been awarded a new contract for the provision of power supplies and other products, as well as manufacturing and fulfilment services, in the healthcare market. The contract, which was the result of collaboration between a number of the division's sites, will support a novel imaging technology, with initial production expected to commence before the end of 2020.

There was also a cross-selling win with a major aerospace customer to supply hybrid microcircuits for cockpit instrumentation on an established military platform. This new customer for the division was achieved with the support of Global Manufacturing Solutions, with whom the customer has had a longstanding relationship.

GLOBAL MANUFACTURING SOLUTIONS

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

	H1 2020	H1 2019	Change	Change constant fx
Revenue	**£95.5m**	£106.5m	(10)%	(10)%
Underlying operating profit[1]	**£6.5m**	£8.0m	(19)%	(18)%
Underlying operating profit margin[1]	**6.8%**	7.5%	(70)bps	(60)bps

[1] See note 1 on page 3 for an explanation of alternative performance measures. Adjusting items are not allocated to divisions for reporting purposes. For further discussion of these items please refer to note 6 on page 35 of this document.

Revenue decreased by £10.6 million at constant currency to £95.5 million (2019: £106.1 million at constant currency), with organic revenue 10 percent lower. This was better than the Group average due to the ramp-up of new business previously won in North America, its exposure to more resilient Asian markets and a focus on the right customers, delivering critical products in essential market areas. In medical markets there was strong demand for products used to counter the COVID-19 outbreak but there was a reduction in demand for non-COVID related applications, in part due to the reduction in elective procedures. There was also reduced demand from other markets, in part due to a reduction in installation-based activity during the international lockdown. Defence market demand remained strong.

There were also some operating constraints and inefficiencies from the COVID-19 outbreak. This impacted the division's Chinese operations in the first quarter, and its other sites in the second quarter, with some sites operating at reduced capacity during the period.

Underlying operating profit decreased by £1.4 million at constant currency to £6.5 million (2019: £7.9 million at constant currency). Despite the adverse impact on profit from lower revenue and operating inefficiencies described above, the division mitigated some of this impact. This reflected lean initiatives and controls over discretionary expenditure. The underlying operating profit margin was 6.8 per cent (2019: 7.5 per cent).

Despite the strong market headwinds experienced in the period, good progress has continued to be made in target markets. The division has won a number of new customer awards, in particular with international defence customers across air, land and maritime domains. In aerospace and defence, a previously announced contract with a single aisle commercial aircraft braking systems customer passed first article acceptance approval in the period, as did an avionics display for a fifth-generation fighter aircraft.

As part of TT's ongoing self-help programme, the division launched a reorganisation of the product portfolio at its Cardiff facility which will allow the site to focus on customers with more advanced technology requirements. Some key customer accounts are being transferred to facilities elsewhere in the division, where customers can be better and more profitably served.

In response to customer demand for an additional manufacturing centre in Asia, the division has established box-build capabilities within the Group's existing Kuantan facility. This new Malaysian manufacturing capability became operational in the third quarter, making first deliveries to a medical customer. The facility complements the division's existing world-class capabilities in China, Europe, and North America.

SENSORS AND SPECIALIST COMPONENTS

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

	H1 2020	H1 2019	Change	Change constant fx
Revenue	**£54.5m**	£64.1m	(15)%	(16)%
Underlying operating profit[1]	**£3.8m**	£7.5m	(49)%	(51)%
Underlying operating profit margin[1]	**7.0%**	11.7%	(470)bps	(480)bps

[1] See note 1 on page 3 for an explanation of alternative performance measures. Adjusting items are not allocated to divisions for reporting purposes. For further discussion of these items please refer to note 6 on page 35 of this document.

Revenue decreased by £10.6m at constant currency to £54.5 million (2019: £65.1 million at constant currency). Organic revenue was 16 per cent lower, with the division's exposure to industrial markets a primary driver of reduced demand.

The division was impacted during April and May by the temporary closure of the Division's manufacturing site in Barbados and two sites in Mexico due to local authorities enforcing a COVID-related general lockdown. In addition, there were operating constraints and inefficiencies at sites, primarily having an impact in the second quarter. This was as a result of shielding vulnerable employees and from the implementation of additional operating controls and social-distancing measures put in response to the COVID-19 outbreak.

Underlying operating profit decreased by £3.9 million at constant currency to £3.8 million (2019: £7.7 million at constant currency). Operating profit reflected lower sales volumes and the operating inefficiencies described above, partially offset by cost actions taken to mitigate the reduction, as well as lower costs from a headcount reduction undertaken in late 2019. The underlying operating profit margin was 7.0 per cent (2019: 11.7 per cent).

As part of the Group's self-help programme, the division has commenced a reduction in its footprint with the closure of its Barbados and Corpus Christi (Texas) sites. These closures will be completed in 2021. An additional targeted headcount reduction programme has also commenced.

Although there has been COVID-related market softening, the structural growth drivers underpinning the division and its capabilities remain intact. As evidence of this, a significant multi-year award was received from a defence customer to supply power resistor assemblies for a fifth-generation fighter aircraft.

In addition, the division was awarded preferred supplier status by an existing technology and innovation customer. This recognised the high level of service delivered over many years, strong product engagement during the pandemic and the addition of recently acquired power supply capabilities. The award increases the potential to win additional work from this important customer.

OTHER FINANCIAL INFORMATION

Summary of underlying results

To assist with the understanding of earnings trends, the Group has included within its half-year financial statements non-GAAP alternative performance measures including underlying operating profit and underlying profit.

The non-GAAP measures used are not defined terms under IFRS and therefore may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

Management uses underlying measures to assess the operating performance of the Group, having adjusted for specific items as detailed in note 6 on page 35. They form the basis of internal management accounts and are used for decision making, including capital allocation. Underlying measures are also presented in this announcement because the Directors believe they provide additional useful information to shareholders on comparative trends over time. Finally, this presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items; this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements.

A reconciliation of statutory to underlying profit numbers is set out on page 18.

A summary of the Group's underlying results is set out below:

£ million	**H1 2020**	**H1 2019**
Revenue	**210.0**	238.2
Operating profit	**11.4**	19.2
Operating margin	***5.4%***	*8.1%*
Net finance expense	**(1.9)**	(1.8)
Profit before tax	**9.5**	17.4
Tax	**(1.7)**	(3.0)
Tax rate	***17.5%***	*17.2%*
Profit after tax	**7.8**	14.4
Weighted average number of shares (million)	***163.5 million***	*162.9 million*
EPS (pence)	**4.8p**	8.8p

Statutory operating (loss)/profit

The Group's statutory operating loss was £2.9 million (2019: £6.9 million profit). In addition to the underlying profit result, statutory operating profit includes certain items which have been accounted for as specific adjusting items, consistent with prior periods. These items are as follows:

- Restructuring costs of £11.4 million (2019: £7.8 million)

These are the costs of significant restructuring of the business including site closures and site consolidation; rationalisation and relocation of product lines; and headcount reductions. The costs incurred in the period predominantly relate to the expanded self-help programme announced earlier in the year. Within the costs above there was £5.2 million relating to severance costs, £4.9 million of intangible and fixed asset write-downs as a direct result of the restructuring and £1.3 million of other restructuring costs.

- There was a £1.0 million credit (2019: £nil) due to the release of the warranty and claims provision relating to Transportation business divestment.

The credit relates to the full and final settlement of outstanding product warranties claims following the divestment of the Transportation, Sensing, & Control division in 2017.

- Amortisation of intangible assets arising on business combinations of £2.0 million (2019: £2.6 million)

Goodwill and other intangible assets arising on business combinations are recognised as a result of the purchase price allocation on acquisition of subsidiaries.

- Other acquisition and integration related costs of £1.9 million (2019: £1.5m)

These are costs directly related to the acquisition of businesses. The charge in the period predominantly relates to acquisition and integration costs of the acquired Power Supply business of Excelitas Corp., based in Covina (California).

In addition, there was £0.4 million of pension and past service charges recognised in statutory profit in 2019.

Net finance cost

The net finance cost in the period was £1.9 million (2019: £1.8 million).

Profit before tax

The Group's statutory loss before tax was £4.8 million (2019: £5.1 million profit). The Group's underlying profit before tax was £9.5 million (2019: £17.4 million).

Tax

The Group's overall tax credit was £0.4 million (2019: £0.2 million credit), including a £2.1 million credit (2019: £3.2 million credit) on items excluded from underlying profit. The underlying effective tax rate was 17.5 per cent (2019: 17.2 per cent) from an underlying tax charge of £1.7 million (2019: £3.0 million). The increase in the effective tax rate was driven by a change in the mix of geographic profit.

Earnings per share

Basic EPS was a loss of 2.7p (2019: 3.9p). Basic EPS was adversely impacted by the net specific adjusting items set out in the paragraphs on statutory operating profit above. Underlying EPS decreased to 4.8p (2019: 8.8p), reflecting the lower underlying operating profit in the period. The Group's average share count remained broadly unchanged at 163.5 million (2019: 162.9 million).

Cash flow

Underlying operating cash flow was £7.0 million (2019: £5.4 million). Despite lower profitability in the period, the cash flow increase in part reflected the Group's tight cash management with capital and development expenditure lower at £4.5 million (2019: £9.3 million) as spending was limited to essential items. There was a working capital outflow of £9.4 million (2019: £15.1 million outflow) as reduced demand and customer order deferrals adversely impacted planned inventory reductions, as well as resulting in lower payables. However, there was an inflow during the period from lower receivables as a result of reduced revenue and from close management of amounts due from customers. Underlying operating cash conversion was 61 per cent (2019: 28 per cent).

There was a free cash outflow of £5.2 million (2019: £9.2m outflow), including £4.7 million (2019: £3.2 million) of payments relating to the new self-help programme. Pension payments in the period were lower at £2.7m (2019: £6.0 million), with the prior period including a one-off payment of £3.4 million on the merger of the Stadium Group (1974) scheme into the TT Group scheme to align funding levels.

Not included within free cash flow were acquisition payments of £14.6 million (2019: £2.3 million) reflecting the January 2020 acquisition of the power supply business of Excelitas Technologies Corp. and deferred consideration relating to a prior period acquisition. There was no dividend payment in the period (2019: £7.4 million).

The table below sets out Group cash flows and net debt movement:

£ million	**HY 2020**	HY 2019
Underlying operating profit	**11.4**	19.2
Depreciation and amortisation	**8.7**	9.0
Net capital expenditure	**(3.0)**	(7.4)
Capitalised development expenditure	**(1.5)**	(1.9)
Working capital	**(9.4)**	(15.1)
Other	**0.8**	1.6
Underlying operating cash flow after capex.	**7.0**	5.4
Underlying operating cash conversion	***61%***	*28%*
Net interest and tax	**(3.0)**	(3.4)
Lease payments	**(1.8)**	(2.0)
Restructuring, acquisition and disposal related costs	**(4.7)**	(3.2)
Retirement benefit schemes	**(2.7)**	(6.0)
Free cash flow	**(5.2)**	(9.2)
Dividends	**-**	(7.4)
Acquisitions & disposals	**(14.6)**	(2.3)
Other	**0.1**	(0.1)
Increase in net debt	**(19.7)**	(18.8)
Opening net debt	**(69.1)**	(63.0)
FX and other	**(0.2)**	(0.6)
Closing net debt	**(89.0)**[1]	(82.4)[1]

[1] Includes IFRS 16 Lease liabilities of £15.7 million (30 June 2019: £20.3 million)

Net debt and leverage

At 30 June 2020 the Group's net debt was £89.0 million (31 December 2019: £69.1 million). Included within net debt was £15.7 million of lease liabilities (31 December 2019: £17.6 million). Consistent with the Group's borrowing agreements, which exclude the impact of IFRS 16, Leases, the net debt/underlying EBITDA ratio was 1.6 times (31 December 2019: 0.9 times). Net interest cover was 13.1 times (31 December 2019: 15.7 times). TT's debt covenants state that the net debt/underlying EBITDA ratio must not exceed 3.0 times and that interest cover must be more than 4.0 times

Reconciliation of underlying results

Details of the reasons for and uses of underlying measures are included in note 6 on page 35 of this Announcement.

£ million	HY 2020	HY 2019
Operating (loss)/profit	**(2.9)**	6.9
Adjusted to exclude:		
Restructuring and other items:		
Restructuring	**11.4**	7.8
Pension and past service charge	**-**	0.4
Acquisition related costs:		
Release of warranty and claims provision relating to Transportation business divestment	**(1.0)**	-
Amortisation of intangible assets arising on business combinations	**2.0**	2.6
Other acquisition related costs	**1.9**	1.5
Total operating reconciling items	**14.3**	12.3
Underlying operating profit	**11.4**	19.2

£ million		
(Loss)/Profit before tax	**(4.8)**	5.1
Total operating reconciling items (as above)	**14.3**	12.3
Underlying profit before tax	**9.5**	17.4
Taxation charge on underlying profit	**(1.7)**	(3.0)
Underlying profit after taxation	**7.8**	14.4

Principal risks and uncertainties

The Group has an established, structured approach to identifying and assessing the impact of financial and operational risks on its business, which is reviewed and updated quarterly.

The principal risks and uncertainties for the remainder of the financial year are not expected to change materially from those included on pages 44 and 45 of the Annual Report and Accounts 2019.

The risks identified relate to the following areas: general revenue reduction due to Brexit and COVID-19, contractual risks; research and development; people and capability; supplier resilience; IT systems and information; M&A and integration, sustainability, environment, health and safety, legal and regulatory compliance.

The uncertainty and the unknown duration of the COVID-19 pandemic has reduced the outlook for economic and industrial output globally. We have seen corresponding market disruption in the period, but the long-term attractiveness of these markets is intact. As a result of our early experiences managing COVID-19 at our operations in China, we were able to roll-out a framework of effective controls across TT's international locations. Our actions have helped us to protect our workforce and their families and enabled us to continue to deliver our essential products to customers, with just a few sites temporarily closed. TT took decisive action to respond quickly and effectively to the COVID-19 outbreak. We have mitigated its impacts on the business and retained the financial and operational flexibility to pursue value creation through organic investment, as well as inorganic opportunities.

Further information in relation to the Group's financial position and going concern is included on page 20.

GOING CONCERN

On 30 January, the World Health Organisation (WHO) announced Coronavirus as a global health emergency. On 11 March 2020, it announced that Coronavirus was a global pandemic. Covid-19 impacted all areas of the operations of the TT Electronics Plc Group ("the Group").

Given the uncertainty and the unknown duration of the Covid-19 pandemic and the reduced outlook for economic and industrial output globally, management has carried out a bottom up updated forecast that has been produced to extend the review to 31 December 2021. This has been prepared by considering how we have traded through key months of the pandemic and where applicable, recovery to date. Management have also considered a downside stress test scenario, which includes a further 10% decline in uncommitted order book for 2020, and, assuming there is a second wave of Covid-19 later in the year, that the same countries which have recently enforced shutdowns, again force the same facilities to close for one month. In addition, the Group has assumed sites which have not yet reached an initial peak in cases are also closed for one month. In 2021, we have assumed a slower market recovery. The downside stress test scenario shows a reduction in revenue and operating profit compared to the updated forecast. Despite this further reduction these projections show that the Group should remain within its facilities headroom and within bank covenants for 2020 and 2021.

If the trading performance is worse than that modelled in our downside stress test scenario there are further mitigations that the Group would introduce such as cost actions and deferring non-essential capex until later periods; TT has shown strong control of capex spending against budget in 2020.

The Group's financial position entering this period of uncertainty was strong and as at 30 June 2020 it had:

- Net debt excluding lease liabilities of £73.3 million
- Net debt to underlying EBITDA (pre-IFRS 16 and adjusted for the impact of acquisitions) of 1.6 times at 30 June 2020 compared to a covenant maximum of 3.0 times
- Interest cover (pre-IFRS 16 and excluding pension interest) of 13.1 times compared to a covenant minimum of 4.0 times
- £93.8 million of available cash and undrawn facility headroom including the headroom on the Group's £180 million committed RCF facility. The Group's RCF matures in November 2023.

The Directors have assessed the future funding requirements of the Group with due regard to the risks and uncertainties to which the Group is exposed and compared them with the level of available borrowing facilities and are satisfied that the Group has adequate resources for at least twelve months from the date of signing these interim results. Accordingly, the financial statements have been prepared on a going concern basis.

Responsibility statement of the Directors

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS34 'Interim Financial Reporting' as adopted by the EU;
- the interim management report includes a fair review of the information required by DTR 4.2.7R:
  - (i) an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements; and
  - (ii) a description of the principal risks and uncertainties for the remaining six months of the year
- the interim management report includes a fair review of the information required by DTR 4.2.8R:
  - (i) related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group in that period; and
  - (ii) any changes in the related parties transactions described in the 2019 Annual Report that could have a material effect on the financial position or performance of the Group in the current period.

By order of the Board

Richard Tyson
Chief Executive Officer
5 August 2020

Mark Hoad
Chief Financial Officer
5 August 2020

Cautionary statement

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

Independent review report to TT Electronics plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of financial position, the Condensed consolidated statement of changes in equity and Condensed consolidated cash flow statement and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

Gatwick, United Kingdom

5 August 2020

Condensed consolidated income statement (unaudited)

for the six months ended 30 June 2020

£million (unless otherwise stated)	Note	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019 (audited)
Revenue	3	210.0	238.2	478.2
Cost of sales		(163.8)	(180.5)	(361.4)
Gross profit		46.2	57.7	116.8
Distribution costs		(13.0)	(14.4)	(28.1)
Administrative expenses		(36.2)	(37.3)	(71.3)
Other operating income		0.1	0.9	1.4
Operating (loss)/profit		(2.9)	6.9	18.8
Analysed as:				
Underlying operating profit	3	11.4	19.2	40.0
Restructuring and other	6	(11.4)	(8.2)	(13.2)
Acquisition and disposal related costs	6	(2.9)	(4.1)	(8.0)
Finance income		0.3	0.4	0.9
Finance costs		(2.2)	(2.2)	(4.6)
(Loss)/profit before taxation		(4.8)	5.1	15.1
Taxation	7	0.4	0.2	(1.2)
(Loss)/profit from continuing operations		(4.4)	5.3	13.9
Discontinued operations				
Profit from discontinued operations		-	1.1	3.4
(Loss)/profit for the period attributable to the owners of the Company		(4.4)	6.4	17.3
EPS attributable to owners of the Company (pence)				
Basic				
Continuing operations	8	(2.7)	3.3	8.5
Discontinued operations	8	-	0.6	2.1
		(2.7)	3.9	10.6
Diluted				
Continuing operations	8	(2.7)	3.2	8.4
Discontinued operations	8	-	0.6	2.0
		(2.7)	3.8	10.4

Condensed consolidated statement of comprehensive income (unaudited)

for the six months ended 30 June 2020

£million	Six months ended 30 June 2020	Six months ended 30 June 2019 [1]	Year ended 31 December 2019 (audited) [1]
(Loss)/profit for the period	**(4.4)**	6.4	17.3
Other comprehensive income/(loss) for the period after tax			
Items that are or may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations [1]	**13.2**	0.2	(7.6)
Gain/(loss) on hedge of net investment in foreign operations [1]	**(1.4)**	-	0.7
(Loss)/gain on cash flow hedges taken to equity less amounts taken to income statement	**(3.2)**	(1.1)	0.1
Items that will never be reclassified to the income statement:			
Remeasurement of defined benefit pension schemes	**15.9**	(0.5)	(9.1)
Tax on remeasurement of defined benefit pension schemes	**(3.4)**	0.1	1.7
Total comprehensive income for the period	**16.7**	5.1	3.1

[1] 'Exchange differences on translation of foreign operations' and 'Gain/(loss) on hedge of net investment in foreign operations' have been re-presented in the comparable periods as further described in note 2.

Condensed consolidated statement of financial position (unaudited)

at 30 June 2020

£million	Note	30 June 2020	30 June 2019 [1] [2]	31 December 2019 (audited) [1] [2]
ASSETS				
Non-current assets				
Right-of-use assets		11.0	14.6	12.8
Property, plant and equipment		55.3	50.8	51.1
Goodwill	4	143.5	138.9	136.1
Other intangible assets		51.2	53.3	51.3
Deferred tax assets		8.4	8.2	7.5
Retirement benefit schemes	10	41.1	26.3	21.2
Total non-current assets		310.5	292.1	280.0
Current assets				
Inventories		107.6	100.2	102.8
Trade and other receivables		73.9	86.2	78.6
Income taxes receivable		3.6	1.7	4.3
Derivative financial instruments		1.6	0.8	0.9
Cash and cash equivalents [1]	11	69.7	62.9	69.8
Total current assets		256.4	251.8	256.4
Total assets		566.9	543.9	536.4
LIABILITIES				
Current liabilities				
Borrowings [1]	11	15.5	11.2	9.6
Lease liabilities		3.9	3.7	3.8
Derivative financial instruments		6.9	3.8	2.1
Trade and other payables [2]		88.0	92.9	102.7
Income taxes payable		7.5	10.4	8.0
Provisions		8.0	5.5	5.2
Total current liabilities		129.8	127.5	131.4
Non-current liabilities				
Borrowings		127.5	113.8	111.7
Lease liabilities		11.8	16.6	13.8
Deferred tax liability		7.1	6.0	4.6
Retirement benefit schemes	10	5.9	4.3	4.6
Other non-current liabilities		0.1	0.1	0.2
Total non-current liabilities		152.4	140.8	134.9
Total liabilities		282.2	268.3	266.3
Net assets		284.7	275.6	270.1
EQUITY				
Share capital		41.0	40.9	41.0
Share premium		4.2	3.5	4.1
Other reserves		(1.0)	2.0	1.2
Hedging and translation reserve		40.9	38.2	32.3
Retained earnings [2]		197.6	189.0	189.5
Equity attributable to owners of the Company		282.7	273.6	268.1
Non-controlling interests		2.0	2.0	2.0
Total equity		284.7	275.6	270.1

[1] ‘Cash and cash equivalents’ and ‘Borrowings’ have been restated to meet the presentational requirements of IAS 32 as further described in note 2.
[2] ‘Retained earnings’ and ‘Trade and other payables’ have been restated for an adjustment to meet the requirements of IFRS 15 as further described in note 2.

Approved by the Board of Directors on 5 August 2020 and signed on their behalf by:

Richard Tyson
Director

Mark Hoad
Director

Condensed consolidated statement of changes in equity (unaudited)

for the six months ended 30 June 2020

£million	Share capital	Share premium	Hedging and translation reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interest	Total
At 31 December 2019	41.0	4.1	32.3	1.2	188.3	266.9	2.0	268.9
Restatement for IFRS 15 [1]					1.2	1.2		1.2
At 1 January 2020	41.0	4.1	32.3	1.2	189.5	268.1	2.0	270.1
Loss for the period	-	-	-	-	(4.4)	(4.4)	-	(4.4)
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	13.2	-	-	13.2	-	13.2
Loss on hedge of net investment in foreign operations	-	-	(1.4)	-	-	(1.4)	-	(1.4)
Loss on cash flow hedges taken to equity less amounts taken to income statement	-	-	(3.2)	-	-	(3.2)	-	(3.2)
Remeasurement of defined benefit pension schemes	-	-	-	-	15.9	15.9	-	15.9
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	(3.4)	(3.4)	-	(3.4)
Total other comprehensive income	-	-	8.6	-	12.5	21.1	-	21.1
Transactions with owners recorded directly in equity								
Share-based payments	-	-	-	(1.9)	-	(1.9)	-	(1.9)
Deferred tax on share-based payments	-	-	-	(0.3)	-	(0.3)	-	(0.3)
New shares issued	-	0.1	-	-	-	0.1	-	0.1
At 30 June 2020	41.0	4.2	40.9	(1.0)	197.6	282.7	2.0	284.7
At 31 December 2018	40.8	3.4	39.1	2.7	191.5	277.5	2.0	279.5
Impact of adoption of IFRS 16	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Restatement for IFRS 15 [1]					1.2	1.2		1.2
At 1 January 2019	40.8	3.4	39.1	2.7	190.4	276.4	2.0	278.4
Profit for the period	-	-	-	-	6.4	6.4	-	6.4
Other comprehensive income								
Exchange differences on translation of foreign operations [2]	-	-	0.2	-	-	0.1	-	0.1
Gain on hedge of net investment in foreign operations [2]	-	-	-	-	-	0.1	-	0.1
Loss on cash flow hedges taken to equity less amounts taken to income statement	-	-	(1.1)	-	-	(1.1)	-	(1.1)
Remeasurement of defined benefit pension schemes	-	-	-	-	(0.5)	(0.5)	-	(0.5)
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	0.1	0.1	-	0.1
Total other comprehensive income	-	-	(0.9)	-	(0.4)	(1.3)	-	(1.3)
Transactions with owners recorded directly in equity:								
Equity dividends paid by the Company	-	-	-	-	(7.4)	(7.4)	-	(7.4)
Share-based payments	-	-	-	(1.2)	-	(1.2)	-	(1.2)
Deferred tax on share-based payments	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Sale of own shares	-	-	-	0.6	-	0.6	-	0.6
New shares issued	0.1	0.1	-	-	-	0.2	-	0.2
At 30 June 2019	40.9	3.5	38.2	2.0	189.0	273.6	2.0	275.6

[1] 'Retained earnings' has been restated for an adjustment to the initial assessment of IFRS15 as further described in note 2.

[2] 'Exchange differences on translation of foreign operations' and 'Gain/(loss) on hedge of net investment in foreign operations' have been re-presented in the comparable periods as further described in note 2.

Condensed consolidated cash flow statement (unaudited)

for the six months ended 30 June 2020

£million (unless otherwise stated)	Note	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
Cash flows from operating activities				
(Loss)/profit for the period		(4.4)	6.4	17.3
Taxation		(0.4)	(0.2)	1.2
Net finance costs		1.9	1.8	3.7
Restructuring and other		11.4	8.2	13.2
Acquisition and disposal related costs		2.9	4.1	8.0
Profit from discontinued operations		-	(1.1)	(3.4)
Underlying operating profit		11.4	19.2	40.0
Adjustments for:				
Depreciation		7.0	6.9	13.9
Amortisation of intangibles		1.7	2.1	4.1
Other items		0.8	1.6	2.5
Increase in inventories		(0.2)	(3.2)	(9.5)
Decrease/(increase) in receivables		9.0	(10.0)	(4.0)
(Decrease)/increase in payables		(18.2)	(1.9)	10.4
Underlying operating cash flow		11.5	14.7	57.4
Special payments to pension funds		(2.7)	(6.0)	(8.6)
Restructuring, acquisition and disposal related costs		(4.7)	(3.2)	(9.2)
Net cash generated from operations		4.1	5.5	39.6
Net income taxes paid		(1.3)	(1.5)	(3.7)
Net cash flow from operating activities		2.8	4.0	35.9
Cash flows from investing activities				
Interest received		-	-	0.1
Purchase of property, plant and equipment		(2.5)	(7.1)	(14.0)
Proceeds from sale of investment property, plant and equipment and capital grants received		-	-	0.4
Capitalised development expenditure		(1.5)	(1.9)	(3.9)
Purchase of other intangibles		(0.5)	(0.3)	(0.7)
Acquisitions of businesses	5	(14.6)	(2.2)	(2.4)
Cash with acquired businesses		-	0.1	0.1
Tax arising on disposal of subsidiaries		-	-	(1.2)
Net cash flow from investing activities		(19.1)	(11.4)	(21.6)
Cash flows from financing activities				
Issue of share capital		0.1	0.2	0.9
Interest paid		(1.7)	(1.9)	(4.1)
Repayment of borrowings		(5.3)	-	–
Proceeds from borrowings		19.5	31.9	30.4
Payment of lease liabilities		(1.8)	(2.2)	(4.4)
Other items		(1.8)	(2.1)	(4.6)
Dividends paid by the Company		-	(7.4)	(10.9)
Net cash flow from financing activities		9.0	18.5	7.3
Net (decrease)/increase in cash and cash equivalents		(7.3)	11.1	21.6
Cash and cash equivalents at beginning of year	11	60.2	40.6	40.6
Exchange differences	11	1.3	-	(2.0)
Cash and cash equivalents at end of period	11	54.2	51.7	60.2

Notes to the condensed consolidated financial statements (unaudited)

1. General information

The condensed consolidated financial statements for the six months ended 30 June 2020 are unaudited and were authorised for issue in accordance with a resolution of the Board of Directors. The information for the year ended 31 December 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

a) Condensed consolidated half-year financial statements

These condensed consolidated half-year financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU. These condensed consolidated half-year financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the 2019 Annual Report.

b) Basis of accounting

Other than as described below the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

The Group participated in the UK Government Coronavirus Job Retention Scheme which meets the definition of a government grant under IAS 20. The Group has elected to present income received from this scheme as an offset to the employee expenses covered by this scheme, in the same line of the income statement. As of 30 June 2020, The Group recognised income from government grants relating to the scheme of £1.1 million and have received cash payments of £0.8 million.

Estimates

The preparation of condensed consolidated financial statements requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated financial statements as at and for the year ended 31 December 2019. These relate to the determination of items of income and expense excluded from operating profit to arrive at underlying operating profit, taxation, impairment of goodwill, provisions and defined benefit pension obligations. The Group is, from time to time, party to various legal proceedings and claims and management do not anticipate that the outcome of these, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

The Group tests whether goodwill has suffered any impairment on an annual basis or when there are triggers based on the value of the discounted future cash flows allocated to the group of CGUs to which it is allocated. The methodology and key assumptions used in assessing the carrying value of goodwill are set out in note 15 of the 2019 Annual Report. The key assumptions made for long term projections, sales and costs growth rates, discount rate and the potential impact of Covid-19 all include an element of estimation that may give rise to a difference between the value ascribed and the actual outcomes. Due to the current Covid-19 global pandemic and technological change in the market, there is an increased level of risk and therefore a key source of estimation uncertainty with respect to the growth in sales and growth in costs assumptions that drive the operating profit forecasts and discount rate. It is reasonably possible that a change in these assumptions could lead to a material change in the carrying value of goodwill specifically within the IoT Solutions CGU, where £27.6 million of goodwill is allocated, within the next financial year. At 31 December 2019 and 30 June 2020, the Group recognised no impairment loss in respect of these assets.

Further details of the key assumptions used and the sensitivity analysis in respect of the recoverable amount of goodwill is disclosed in note 4.

Going concern

After making appropriate enquiries, 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 interim results. Therefore, they continue to adopt the going concern basis of accounting in preparing the condensed consolidated half-year financial statements. Page 20 outlines the going concern assessment.

Given the considerable financial resources available, together with long term partnerships with multiple 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 Group continues to manage foreign currency risk at a transactional level through the use of hedges which are monitored by the Group Treasury Committee.

The Treasury Committee regularly reviews counterparty credit risk and ensures cash balances are held with carefully assessed counterparties with strong credit ratings.

Pages 42 to 45 of the 2019 Annual Report provide details of the Group's policy on managing its operational and financial risks.

Restatements and representations

Within the period, it was determined that the Group's cash and overdrafts within notional cash pooling arrangements did not meet the requirements for offsetting in accordance with IAS 32: 'Financial Instruments: Presentation' and cannot be presented net in the statement of financial position. For presentational purposes, amounts have therefore been restated for the preceding period ended 31 December 2019 and 30 June 2019 in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Policies and Errors'. The impact of this change is to increase both cash and cash equivalents and overdrafts within current loans and other borrowings for the period ended 30 December 2019 by £9.6 million (June 2019: £11.2 million) in the Group's Consolidated statement of financial position. The restatement has no impact on the Group's net debt, bank covenants or other commercial agreements.

In the period it was determined that an adjustment was required to the initial deferred income recognised due to pricing concessions given to isolated customers on the adoption of IFRS 15: 'Revenue from Contracts with Customers'. The impact of this restatement is to increase retained earnings and decrease deferred revenue for the period ending 30 June 2019 and 31 December 2019 by £1.2 million. There is no impact on the income statement or EPS as a result of this correction.

Within the comparable periods the consolidated statement of comprehensive income and the consolidated statement of changes in equity have been re-presented to present the gain/(loss) upon retranslation of foreign currency denominated quasi equity loans within the line 'Exchange differences on translation of foreign operations' which were previously presented within the line 'Gain/(loss) on hedge of net investment in foreign operations'. The value of the amounts re-presented was (£0.1m) in the six-month period to 30 June 2019 and £2.7m in the year to 31 December 2019.

3. Segmental reporting

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

- Power and Connectivity – The Power and Connectivity division designs and manufactures power application products and connectivity devices which enable the capture and wireless transfer of data. We collaborate with our customers to develop innovative solutions to optimise their electronic systems;
- Global Manufacturing Solutions – The Global Manufacturing Solutions division provides manufacturing services and engineering solutions for our product divisions and to customers that often require a lower volume and higher mix of different products. We manufacture complex integrated product assemblies for our customers and provide engineering services including designing testing solutions and value-engineering; and
- Sensors and Specialist Components – The Sensors and Specialist Components division works with customers to develop standard and customised solutions including sensors and power management devices. Our solutions improve the precision, speed and reliability of critical aspects of our customers' applications.

The key performance measure of the operating segments is underlying operating profit. Refer to note 6 for a definition of underlying operating profit.

Corporate costs - Resources and costs of the head office managed centrally but deployed in support of the operating units are allocated to segments based on a combination of revenue and operating profit.

Resources and costs of the head office which are not related to the operating activities of the trading units are not allocated to divisions and are separately disclosed, equivalent to the segment disclosure information, so that reporting is consistent with the format that is used for review by the chief operating decision maker. This gives greater transparency of the underlying operating profits for each segment. Adjusting items are not allocated to divisions for reporting purposes. For further discussion of these items please see note 6.

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

Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments. Goodwill is allocated to the individual cash generating units within the segment of which it is a part.

Income statement information

						Six months ended 30 June 2020
£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total Operating Segments	Corporate	Total
Sales to external customers	**60.0**	**95.5**	**54.5**	**210.0**	**-**	**210.0**
Underlying operating profit/(loss)	**4.4**	**6.5**	**3.8**	**14.7**	**(3.3)**	**11.4**
Adjustments to underlying operating profit (note 6)						**(14.3)**
Operating loss						**(2.9)**
Net finance costs						**(1.9)**
Loss before taxation						**(4.8)**

						Six months ended 30 June 2019
£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total Operating Segments	Corporate	Total
Sales to external customers	67.6	106.5	64.1	238.2	-	238.2
Underlying operating profit/(loss)	7.2	8.0	7.5	22.7	(3.5)	19.2
Adjustments to underlying operating profit (note 6)						(12.3)
Operating profit						6.9
Net finance costs						(1.8)
Profit before taxation						5.1

						Year ended 31 December 2019
£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total Operating Segments	Corporate	Total
Sales to external customers	138.2	213.2	126.8	478.2	–	478.2
Underlying operating profit/(loss)	16.5	15.4	15.3	47.2	(7.2)	40.0
Adjustments to underlying operating profit (note 6)						(21.2)
Operating profit						18.8
Net finance costs						(3.7)
Profit before taxation						15.1

There is no significant intergroup trading between segments.

Revenue by destination

£million	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
United Kingdom	50.1	71.5	139.4
Rest of Europe	37.2	44.7	89.6
North America	76.1	67.0	141.7
Central and South America	0.3	0.2	0.6
Asia	44.6	52.5	103.1
Rest of the World	1.7	2.3	3.8
	210.0	238.2	478.2

Revenue by market

£million	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
Aerospace and defence	45.9	47.5	106.7
Industrial	92.9	105.3	201.2
Medical	50.5	58.6	115.8
Other [1]	20.7	26.8	54.5
	210.0	238.2	478.2

[1] Other markets include rail and metro infrastructure, electric, hybrid and other vehicles.

4. Goodwill

At 30 June 2020, due to reduced forecast revenues resulting from the COVID-19 pandemic, an indicator of impairment was identified in respect of goodwill allocated to all CGUs, with the most significant impact on IoT Solutions. As a result, using reasonable assumptions a review for impairment was performed and no impairments were identified. Management have detailed plans in place for the years 2020 to 2023 with the final years' assumptions extended to cover the five-year period. These plans are based on internal and third-party growth assumptions and management have considered reasonable possible changes through the performance of stress testing on the key assumptions: operating cash flow projections and discount rate. Cash flows can be impacted by changes to sales projections, sales prices, direct costs and replacement capital expenditure.

The forecasts for the IoT Solutions CGU prepared using a methodology required by IAS 36, show headroom of £8.1 million above the £57.7 million carrying amount, including £27.6m of goodwill. The pre-tax discount rate used for this CGU was 11.9% (2019: 11.7%). 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. In 2020 the long-term annual inflation rate used was 1.8%. The growth rates assume that demand for our product 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.

In accordance with IAS 36, the Group performed sensitivity analysis on the estimates of recoverable amounts and found that the excess of recoverable amount over the carrying amount of the IoT Solutions CGU would be reduced to nil as a result of a reasonably possible change in the key assumptions. The recoverable amount would equal the carrying value if operating cash flow was reduced by 12.3% in the forecast period including the period beyond the strategic plan within the value in use model or the pre-tax discount rate was increased by 1.3% in the value in use model. Management do not consider that the relevant change in these assumptions would have a consequential effect on other key assumptions.

5. Acquisitions

On 3 January 2020 the Group acquired the trade and assets of the aerospace and defence power supply business of Excelitas Technologies Corp based in Covina, California, for an initial cash consideration of $17.7 million (£13.5 million) and a further $0.9 million (£0.7 million) working capital adjustment paid in cash. In December 2019 $0.3m (£0.2m) was paid for a hedging instrument on the consideration. Acquisition costs including integration costs are disclosed in note 6.

The fair value of the net assets acquired were £12.1 million, resulting in goodwill recognised on acquisition of £2.3 million and intangibles relating to the business' customer relationships. From the date of acquisition to the period end the business generated revenue of £4.0 million and operating profit of £0.7 million.

The acquisition enhances the Group's presence in the large and growing US aerospace and defence market and extends the Group's power electronics capabilities to include power convertors, moving the Group up the value chain, in line with its strategy. This will also provide access to sole-sourced positions on growing defence programmes for the Group and new customer relationships with key US defence primes. The goodwill recognised on acquisition represents the Group's view of the future earnings growth potential and technical know-how in the acquired business.

£million	The aerospace and defence power supply business of Excelitas Technologies Corp
Non-current assets	
Property, plant and equipment	5.4
Identifiable intangible assets	4.1
Current assets / (liabilities)	
Inventory	1.3
Trade and other receivables	1.8
Trade and other payables	(0.5)
	12.1
Consideration Paid	
Cash consideration net of the impact of hedging	14.4
Goodwill	2.3

On 22 March 2019 the Group acquired the entire equity share capital of Power Partners Inc. for an initial $1.6 million (£1.2 million), an additional $0.7m (£0.5 million) was paid in the period based on business

performance. A further \$0.6 million (£0.5 million) may become payable subject to business performance over the next year.

6. Adjusting items

£million	Six months ended 30 June 2020		Six months ended 30 June 2019		Year ended 31 December 2019	
	Operating profit / (loss)	Tax	Operating profit	Tax	Operating profit	Tax
As reported	(2.9)	0.4	6.9	0.2	18.8	(1.2)
Restructuring and other						
Restructuring	(11.4)	1.5	(7.8)	1.3	(12.8)	3.0
Pension past service charge	-		(0.4)	0.1	(0.4)	0.1
	(11.4)	1.5	(8.2)	1.4	(13.2)	3.1
Acquisition and disposal related costs						
Release of acquisition and disposal tax provision	-	-	-	1.0	-	-
Release of warranty and claims provision for Transportation	1.0	-	-	-	-	-
Amortisation of intangible assets arising on business combinations	(2.0)	0.4	(2.6)	0.5	(4.5)	1.0
Other acquisition and disposal related costs	(1.9)	0.2	(1.5)	0.3	(3.5)	0.5
	(2.9)	0.6	(4.1)	1.8	(8.0)	1.5
Total items excluded from underlying measure	(14.3)	2.1	(12.3)	3.2	(21.2)	4.6
Underlying measure	11.4	(1.7)	19.2	(3.0)	40.0	(5.8)

Restructuring costs charged in the period primarily relate to costs arising on the restructuring of the Group's footprint, product rationalisation and headcount reduction programme to reduce the Group's fixed costs. Within the costs above there was £5.2 million relating to severance costs and provisions, £3.4 million of intangible asset write-downs, £1.5 million of right of use asset and plant, property and equipment write downs and £1.3 million of other costs. Prior period's restructuring costs amounted to £7.8 million, primarily related to restructuring of the Sensors and Specialist Components division, and the support of the Stadium synergy plan.

Acquisition and disposal related costs charged in the period relate to amortisation of acquired intangible assets (£2.0 million), acquisition and integration costs of the aerospace and defence power supply business of Excelitas Technologies Corp based in Covina, California (£0.6 million acquisition costs, £0.5 million integration costs), a credit related to the release of a product quality warranty claim provision relating to the disposal of the Transportation, Sensing, & Control Division in 2017, following a full and final settlement of all product warranty claims with AVX Limited (£1.0 million) and other costs largely relating to unannounced deals and retention payments entered into on the date of acquisition to employees of acquired businesses (£0.8m).

7. Taxation

The half-year tax charge is based on a forecast effective tax rate of 17.5% on profit excluding restructuring, asset impairments and acquisition and disposal related costs. The tax charge arising on the profit in the period is offset by tax credits arising on prior periods.

On 6 September 2016 the UK enacted a reduction in the rate of corporation tax from 19% to 17% to be effective from 1 April 2020. This would have reduced the company's future current tax charge accordingly. On 11 March 2020 the UK Government announced their intention to stop this reduction and retain a UK corporation tax of 19%. This was enacted for IFRS purposes on 17 March 2020.

8. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of shares in issue during the period. The weighted average number of shares in issue is 163.5 million (30 June 2019: 162.9 million, 31 December 2019: 163.1 million). The calculation of the diluted earnings per share excludes 2,801,278 (2019: nil) share options whose effect would have been anti-dilutive. Underlying earnings per share is based on the underlying profit or loss after interest and tax.

Pence	**Six months ended 30 June 2020**	Six months ended 30 June 2019	Year ended 31 December 2019
Basic earnings per share			
Continuing operations	(2.7)	3.3	8.5
Discontinued operations	-	0.6	2.1
Total	(2.7)	3.9	10.6
Diluted earnings per share			
Continuing operations	(2.7)	3.2	8.4
Discontinued operations	-	0.6	2.0
Total	(2.7)	3.8	10.4

The numbers used in calculating underlying earnings per share are shown below:

£million	**Six months ended 30 June 2020**	Six months ended 30 June 2019	Year ended 31 December 2019
Continuing operations			
(Loss) / profit for the period attributable to owners of the Company	(4.4)	5.3	13.9
Restructuring and other	11.4	8.2	13.2
Acquisition and disposal related costs	2.9	4.1	8.0
Tax effect of above items (see note 6)	(2.1)	(3.2)	(4.6)
Underlying earnings	7.8	14.4	30.5
Underlying basic earnings per share (pence)	4.8	8.8	18.6
Underlying diluted earnings per share (pence)	4.7	8.6	18.3

9. Dividends

	2020 pence per share	2020 £million	2019 pence per share	2019 £million
Final dividend paid for prior year	-	-	4.55	7.4
Interim dividend part for current year	-	-	2.10	3.4
	-	-	6.65	10.8

The Board has decided, taking into account the disruption from COVID-19 to our first half performance, the range of possible outcomes for the year, and our desire to retain flexibility and preserve the Group's financial strength, not to pay an interim dividend for 2020 at this stage.

10. Retirement benefit schemes

At 30 June 2020 the Group operated two defined benefit schemes in the UK (the TT Group (1993) scheme and Southern & Redfern Ltd Retirement Benefits Scheme) and overseas defined benefit schemes in the USA. These schemes are closed to new members and the UK scheme is closed to future accrual.

Given the nature of the Company's control of the plan under the Scheme's rules, a pension surplus has been recognised under IFRIC 14.

The amounts recognised in the condensed consolidated statement of financial position are:

£million	30 June 2020	30 June 2019	31 December 2019
TT Group (1993)	41.1	26.1	21.2
Southern & Redfern	-	0.2	-
USA schemes	(5.9)	(4.3)	(4.6)
	35.2	22.0	16.6

£million	30 June 2020	30 June 2019	31 December 2019
Fair value of assets	628.2	585.6	583.1
Present value of funded obligation	(593.0)	(563.6)	(566.5)
Net surplus recognised in the statement of financial position	35.2	22.0	16.6
Represented by			
Schemes in net surplus	41.1	26.3	21.2
Schemes in net deficit	(5.9)	(4.3)	(4.6)
	35.2	22.0	16.6

The costs recognised in the condensed consolidated income statement are:

£million	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
Scheme administration costs	0.6	0.5	1.0
Past service cost (non-underlying)	-	0.4	0.4
Net interest credit	0.2	0.3	0.6

The fair value of assets within the TT Group scheme increased during the period despite falls in the value of growth assets. There was an increase in the value of the liability hedging assets, predominantly due to the significant falls in gilt yields during the period. The increase in the funded obligation is due to falls in yields on corporate bonds.

The triennial valuation of the TT Group scheme as at April 2019 showed a net surplus of £0.3 million against the Trustee's funding objective compared with a deficit of £46.0 million at April 2016.

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

The Group has set aside £2.5 million to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme. The total payments made in period ended 30 June 2020 in respect of UK schemes was £2.6 million.

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

£million	Net cash	Borrowings and lease liabilities	Net (debt)/funds
At 31 December 2018	40.6	(82.3)	(41.7)
Impact of adoption of IFRS 16	-	(21.3)	(21.3)
Adjusted balance at 1 January 2019	40.6	(103.6)	(63.0)
Cash flow	11.1	-	11.1
Proceeds from borrowings	-	(31.9)	(31.9)
Payment of lease liabilities	-	2.2	2.2
Amortisation of loan arrangement fees	-	(0.2)	(0.2)
New finance leases	-	(0.2)	(0.2)
Business acquired	-	(0.2)	(0.2)
Exchange differences	-	(0.2)	(0.2)
At 30 June 2019	51.7	(134.1)	(82.4)
Cash flow	10.5	-	10.5
Repayment of borrowings	-	6.5	6.5
Proceeds from borrowings	-	(5.0)	(5.0)
Payment of lease liabilities	-	2.2	2.2
Amortisation of loan arrangement fees	-	(0.2)	(0.2)
New finance leases	-	(0.5)	(0.5)
Lease disposal	-	0.4	0.4
Exchange differences	(2.0)	1.4	(0.6)
At 31 December 2019	60.2	(129.3)	(69.1)
Cash flow	(7.3)	-	(7.3)
Repayment of borrowings	-	5.3	5.3
Proceeds from borrowings	-	(19.5)	(19.5)
Payment of lease liabilities	-	1.8	1.8
Change in assessment of lease liabilities	-	1.4	1.4
Amortisation of loan arrangement fees	-	(0.2)	(0.2)
New finance leases	-	(0.3)	(0.3)
Acquisitions	-	-	-
Exchange differences	1.3	(2.4)	(1.1)
At 30 June 2020	**54.2**	**(143.2)**	**(89.0)**

Net cash comprises of:			
Cash at bank and in hand	69.7	62.9	69.8
Bank overdrafts	(15.5)	(11.2)	(9.6)
Net cash at end of period	**54.2**	**51.7**	**60.2**

12. Share capital

The performance conditions of the Long Term Incentive Plan awards issued in 2017 were met and shares were allocated to award holders from existing shares held by an Employee Benefit Trust for nil consideration.

During the period the Company issued 59,772 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.1 million, which was represented by an immaterial increase in share capital and a £0.1 million increase in share premium.

13. Related party transactions

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. No related party transactions have taken place during the six months ended 30 June 2020 that have affected the financial position or performance of the Group.

Glossary

In accordance with the Guidelines on APMs issued by the European Securities and Markets Authority (ESMA), additional information is provided on the APMs used by the Group below.

To assist with the understanding of earnings trends, the Group has included within its half year financial statements APMs including underlying operating profit and underlying profit. The APMs used are not defined terms under IFRS and therefore may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

Management uses underlying measures to assess the operating performance of the Group, having adjusted for specific items as detailed in note 6 on page 35. They form the basis of internal management accounts and are used for decision making including capital allocation, with a subset also forming the basis of internal incentive arrangements. By using underlying measures in segmental reporting, this enables readers of the financial statements to recognise how incentive performance is targeted. Underlying measures are also presented in this announcement because the Directors believe they provide additional useful information to shareholders on comparative trends over time. Finally, this presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items; this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition
Income statement measures			
Underlying operating profit	Operating profit	Adjusting items as disclosed in note 6	Operating profit from continuing operations excluding the impacts of significant restructuring programmes; significant one-off items including property disposals, business acquisition and divestment related activity; and the amortisation of intangible assets recognised on acquisition. Business acquisition and divestment related items include the writing off of the pre-acquisition profit element of inventory written up on acquisition, other direct costs associated with business combinations and adjustments to contingent consideration related to acquired businesses. Costs arising from significant changes in footprint (including movement of production facilities) and significant costs of management changes.

Underlying operating margin	Operating profit margin	Adjusting items as disclosed in note 6	Underlying operating profit as a percentage of revenue.
Underlying earnings per share	Earnings per share	See note 8 for the reconciliation and calculation of underlying earnings per share.	The profit for the year attributable to the owners of the Group adjusted to exclude the items not included within underlying operating profit divided by the weighted average number of shares in issue during the year.
Underlying diluted earnings per share	Diluted earnings per share	See note 8 for the reconciliation and calculation of underlying diluted earnings per share.	The profit for the year attributable to the owners of the Group adjusted to exclude the items not included within underlying operating profit divided by the weighted average number of shares in issue during the year, adjusted for the effects of any potentially dilutive options.
Organic revenue	Revenue	Not applicable	This is the percentage change in revenue from continuing operations in the current year compared to the prior year, excluding the effects of currency movements and acquisitions. This measures the underlying growth or decline of the business.

Six months ended 30 June 2020 £million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total
2020 revenue	**60.0**	**95.5**	**54.5**	**210.0**
Acquisitions	**4.9**	**-**	**-**	**4.9**
2020 revenue (excluding acquisitions)	**55.1**	**95.5**	**54.5**	**205.1**
2019 revenue	67.6	106.5	64.1	238.2
Foreign exchange impact	(0.4)	0.4	(1.0)	(1.0)
2019 revenue at 2020 exchange rates	68.0	106.1	65.1	239.2
Organic revenue decline (%)	(19%)	(10%)	(16%)	(14%)

<table>
<tr><td>Underlying effective tax charge</td><td>Effective tax charge</td><td>Adjusting items as disclosed in note 6</td><td>Tax charge adjusted to exclude items not included within underlying operating profit and other non-underlying tax items divided by underlying profit before tax, which is also adjusted to exclude the items not included within underlying operating profit.

<table>
<tr><th>£million</th><th>Six months ended 30 June 2020</th><th>Six months ended 30 June 2019</th><th>Year ended 31 December 2019</th></tr>
<tr><td>Underlying operating profit</td><td>11.4</td><td>19.2</td><td>40.0</td></tr>
<tr><td>Net interest</td><td>(1.9)</td><td>(1.8)</td><td>(3.7)</td></tr>
<tr><td>Underlying profit before tax</td><td>9.5</td><td>17.4</td><td>36.3</td></tr>
<tr><td>Underlying tax</td><td>1.7</td><td>3.0</td><td>5.8</td></tr>
<tr><td>Adjusted underlying effective tax rate</td><td>17.5%</td><td>17.2%</td><td>16.0%</td></tr>
</table>
</td></tr>
<tr><td>Return on invested capital</td><td>None</td><td>Adjusting items as disclosed in note 6</td><td>Underlying operating profit for the year divided by average invested capital for the year. Average invested capital excludes pensions, provisions, tax balances, derivative financial assets and liabilities, cash and borrowings and is calculated at average rates taking 12 monthly balances. This measures how efficiently assets are utilised to generate returns with the target of exceeding the cost to hold the assets.

<table>
<tr><th>£million</th><th>Six months ended 30 June 2020</th><th>Six months ended 30 June 2019</th><th>Year ended 31 December 2019</th></tr>
<tr><td>Underlying profit</td><td>11.4</td><td>19.2</td><td>40.0</td></tr>
<tr><td>Underlying profit H2 prior year (half year only)</td><td>20.8</td><td>18.8</td><td>-</td></tr>
<tr><td>Annualised underlying profit</td><td>32.2</td><td>38.0</td><td>40.0</td></tr>
<tr><td>Average invested capital</td><td>359.3</td><td>337.1</td><td>354.0</td></tr>
<tr><td>Return on invested capital</td><td>9.0%</td><td>11.3%</td><td>11.3%</td></tr>
</table>
</td></tr>
</table>

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition
Statement of financial position measurements			
Net debt	Cash and cash equivalents less borrowings and lease liabilities	Reconciliation of net cash flow to movement in net (debt)/ funds (note 11)	Net debt comprises cash and cash equivalents and borrowings including lease liabilities.
Net debt / underlying EBITDA (bank covenant)	None	Not applicable	The measure used in our bank covenant is net debt (bank covenant) divided by underlying EBITDA (bank covenant). Underlying EBITDA (bank covenant) is underlying operating profit, excluding depreciation of property, plant and equipment (excluding depreciation of right-of-use assets) and amortisation of intangible assets (excluding amortisation of acquisition intangibles); adjusted for the full-year pro-forma effect of acquisitions and disposals. For HY reporting underlying EBITDA is calculated on a rolling 12 months basis at average rates. Net debt (bank covenant) is net debt (as defined), excluding lease liabilities. Calculated at average rates.

£million	**Six months ended 30 June 2020**	Six months ended 30 June 2019	Year ended 31 December 2019
Net debt (as per note 11)	**(89.0)**	(82.4)	(69.1)
Lease liabilities	**15.7**	20.3	17.6
Adjustment for average exchange rates	**(0.4)**	(0.6)	1.1
Net debt (bank covenant)	**(73.7)**	(62.7)	(50.4)

£million	**Six months ended 30 June 2020**	Six months ended 30 June 2019	Year ended 31 December 2019
Underlying EBITDA (bank covenant)	**44.9**	51.9	53.7
Net debt (bank covenant)	**(73.7)**	(62.7)	(50.4)
Net debt/underlying EBITDA (bank covenant)	**1.6**	1.2	0.9

<table>
<tr><td>Net capital and development expenditure (net capex)</td><td>None</td><td>Not applicable</td><td>Purchase of property, plant and equipment net of government grants (excluding property disposals), purchase of intangibles (excluding acquisition intangibles) and capitalised development.

£million	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
Purchase of property, plant and equipment	(2.5)	(7.1)	(14.0)
Proceeds from sale of investment property, plant and equipment and capital grants received	-	-	0.4
Capitalised development expenditure	(1.5)	(1.9)	(3.9)
Purchase of other intangibles	(0.5)	(0.3)	(0.7)
Net capital and development expenditure	(4.5)	(9.3)	(18.2)

</td></tr>
<tr><td>Dividend per share</td><td>Dividend per share</td><td>Not applicable</td><td>Amounts payable by dividend in terms of pence per share.</td></tr>
</table>

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition</th></tr>
<tr><td colspan="4">Cash flow measurements</td></tr>
<tr><td>Underlying operating cash flow</td><td>Operating cash flow</td><td>Condensed consolidated cash flow statement</td><td>Underlying operating profit, excluding depreciation of property, plant and equipment (excluding depreciation of right-of-use assets) and amortisation of intangible assets (excluding amortisation of acquisition intangibles) less working capital and non-cash movements.

<table>
<tr><th>£million</th><th>Six months ended 30 June 2020</th><th>Six months ended 30 June 2019</th><th>Year ended 31 December 2019</th></tr>
<tr><td>Underlying operating profit</td><td>11.4</td><td>19.2</td><td>40.0</td></tr>
<tr><td>Adjustments for:</td><td></td><td></td><td></td></tr>
<tr><td>Depreciation</td><td>7.0</td><td>6.9</td><td>13.9</td></tr>
<tr><td>Amortisation of intangibles</td><td>1.7</td><td>2.1</td><td>4.1</td></tr>
<tr><td>Other items</td><td>0.8</td><td>1.6</td><td>2.5</td></tr>
<tr><td>Increase in inventories</td><td>(0.2)</td><td>(3.2)</td><td>(9.5)</td></tr>
<tr><td>Decrease/(increase) in receivables</td><td>9.0</td><td>(10.0)</td><td>(4.0)</td></tr>
<tr><td>(Decrease)/increase in payables</td><td>(18.2)</td><td>(1.9)</td><td>10.4</td></tr>
<tr><td>Underlying operating cash flow</td><td>11.5</td><td>14.7</td><td>57.4</td></tr>
</table></td></tr>
</table>

<table>
<tr>
<td>Underlying operating cash flow post capex</td>
<td>Operating cash flow</td>
<td>Condensed consolidated cash flow statement</td>
<td>Underlying operating cash flow less net capital and development expenditure.
<table>
<tr><th>£million</th><th>Six months ended 30 June 2020</th><th>Six months ended 30 June 2019</th><th>Year ended 31 December 2019</th></tr>
<tr><td>Underlying operating profit</td><td>11.4</td><td>19.2</td><td>40.0</td></tr>
<tr><td>Underlying operating cash flow</td><td>11.5</td><td>14.7</td><td>57.4</td></tr>
<tr><td>Purchase of property, plant and equipment</td><td>(2.5)</td><td>(7.1)</td><td>(14.0)</td></tr>
<tr><td>Proceeds from sale of plant and equipment and grants received</td><td>-</td><td>-</td><td>0.4</td></tr>
<tr><td>Development expenditure</td><td>(1.5)</td><td>(1.9)</td><td>(3.9)</td></tr>
<tr><td>Purchase of other intangibles</td><td>(0.5)</td><td>(0.3)</td><td>(0.7)</td></tr>
<tr><td>Underlying operating cashflow post capex</td><td>7.0</td><td>5.4</td><td>39.2</td></tr>
</table>
</td>
</tr>
<tr>
<td>Working Capital</td>
<td>Cashflow - inventories payables and receivables</td>
<td>Not applicable</td>
<td>Working capital comprises of three statutory cashflow figures: increase/(decrease) in inventories, increase/(decrease) in payables and increase/(decrease) in receivables.
<table>
<tr><th>£million</th><th>Six months ended 30 June 2020</th><th>Six months ended 30 June 2019</th><th>Year ended 31 December 2019</th></tr>
<tr><td>Increase in inventories</td><td>(0.2)</td><td>(3.2)</td><td>(9.5)</td></tr>
<tr><td>Decrease/(increase) in receivables</td><td>9.0</td><td>(10.0)</td><td>(4.0)</td></tr>
<tr><td>(Decrease)/increase in payables</td><td>(18.2)</td><td>(1.9)</td><td>10.4</td></tr>
<tr><td>Working capital</td><td>(9.4)</td><td>(15.1)</td><td>(3.1)</td></tr>
</table>
</td>
</tr>
</table>

<table>
<tr>
<td>Free cash flow</td>
<td>Net increase/ decrease in cash and cash equivalents</td>
<td>Net cash flow from operating activities less cash flow from investing activities (excluding acquisitions and disposal proceeds and tax arising thereon), less interest paid, less payment of lease liabilities.</td>
<td>Free cash flow represents cash generated from trading after all costs including restructuring, pension contributions, tax and interest payments.
<table>
<tr><th>£million</th><th>Six months ended 30 June 2020</th><th>Six months ended 30 June 2019</th><th>Year ended 31 December 2019</th></tr>
<tr><td>Net cash flow from operating activities</td><td>2.8</td><td>4.0</td><td>35.9</td></tr>
<tr><td>Net cash flow from investing activities</td><td>(19.1)</td><td>(11.4)</td><td>(21.6)</td></tr>
<tr><td>Add back: Acquisition of business</td><td>14.6</td><td>2.2</td><td>2.4</td></tr>
<tr><td>Add back: Cash with acquired businesses</td><td>-</td><td>(0.1)</td><td>(0.1)</td></tr>
<tr><td>Payment of lease liabilities</td><td>(1.8)</td><td>(2.0)</td><td>(4.0)</td></tr>
<tr><td>Interest paid</td><td>(1.7)</td><td>(1.9)</td><td>(4.1)</td></tr>
<tr><td>Free cash flow</td><td>(5.2)</td><td>(9.2)</td><td>9.7</td></tr>
</table>
</td>
</tr>
<tr>
<td>Cash conversion</td>
<td>None</td>
<td>Not applicable</td>
<td>Underlying operating cash flow post capex divided by underlying operating profit. Underlying EBITDA is underlying operating profit, excluding depreciation of property, plant and equipment and amortisation of intangible assets charged to underling operating profit. Cash conversion measures how effectively we convert profit into cash and tracks the management of our working capital and capital expenditure.
<table>
<tr><th>£million</th><th>Six months ended 30 June 2020</th><th>Six months ended 30 June 2019</th><th>Year ended 31 December 2019</th></tr>
<tr><td>Underlying operating profit</td><td>11.4</td><td>19.2</td><td>40.0</td></tr>
<tr><td>Underlying operating cash flow</td><td>11.5</td><td>14.7</td><td>57.4</td></tr>
<tr><td>Purchase of property, plant and equipment</td><td>(2.5)</td><td>(7.1)</td><td>(14.0)</td></tr>
<tr><td>Proceeds from sale of plant and equipment and grants received</td><td>-</td><td>-</td><td>0.4</td></tr>
<tr><td>Development expenditure</td><td>(1.5)</td><td>(1.9)</td><td>(3.9)</td></tr>
<tr><td>Purchase of other intangibles</td><td>(0.5)</td><td>(0.3)</td><td>(0.7)</td></tr>
<tr><td>Underlying operating cashflow post capex</td><td>7.0</td><td>5.4</td><td>39.2</td></tr>
<tr><td>Cash conversion</td><td>61%</td><td>28%</td><td>98%</td></tr>
</table>
</td>
</tr>
</table>

R&D investment / R&D spend	None	Not applicable	R&D cash spend and R&D investment as a percentage of revenue excludes Global Manufacturing Solutions which is a manufacturing services business and therefore has no R&D.

£million	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
Revenue (excluding GMS)	114.5	131.7	265.0
R&D cash spend	5.7	7.1	13.5
R&D cash spend as a percentage of revenue	5.0%	5.4%	5.1%