2019 Interim Results, 7 August 2019

TT Electronics plc

Results for the half-year ended 30 June 2019

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An analyst presentation will be held today at 08:00 at Numis, 10 Paternoster Square, London EC4M 7LT. The webcast will be available live on the investor relations section of our website with a recoding available later today at www.ttelectronics.com.

Interim Results for the half-year ended 30 June 2019

STRONG ORGANIC GROWTH

£ million unless otherwise stated	Underlying[1] H1 2019	Underlying[1] H1 2018	Change	Change constant fx[2]	Statutory H1 2019	Statutory H1 2018
Continuing operations						
Revenue	**238.2**	194.2	23%	20%	**238.2**	194.2
Operating profit	**19.2**	14.6	32%	27%	**6.9**	7.7
Operating profit margin	**8.1%**	7.5%	60bps	50bps	**2.9%**	4.0%
Profit before taxation	**17.4**	14.0	24%	20%	**5.1**	7.1
Earnings per share (pence)	**8.8p**	6.9p	28%	22%	**3.3p**	4.4p
Return on invested capital [3,4]	**11.3%**	11.5%				
Cash conversion[5]	**28%**	105%				
Free cash flow[6]					**(9.2)**	4.1
Net debt[4]					**(82.4)**	(41.7)
Net debt to EBITDA[4, 7]					**1.2x**	0.8x
Dividend per share (pence)					**2.1p**	1.95p
Total Operations: Earnings per share (pence)					**3.9p**	4.4p

Financial Headlines

- 20% revenue growth; up 8% organically
- Underlying operating profit up 27% at constant currency;
- Underlying operating margins up by 50 basis points to 8.1%
- ROIC of 11.3%; up 20 basis points to 11.7% excluding the impact of IFRS 16
- Dividend increased by 8% to 2.1p

Strategic Progress

- Business quality enhanced through continued focus on the right markets, capabilities and customers
- New customer wins, growth with existing customers and increased cross-selling opportunities
- Secured significant customer wins for recurring multi-million pound revenues
- Aerospace and defence and medical grew 37% (27% organically); now 45% of revenues
- Operational efficiency improvements from footprint action underway

Richard Tyson, Chief Executive Officer, said:

"We have delivered strong revenue and profit growth alongside further margin progression in the first half despite a tougher market backdrop.

The evolution of TT into a higher quality, better balanced Group reflects our strategic focus on picking the right customers in the right markets and investing in the right capabilities. The actions we have taken to concentrate on sensing, power and connectivity solutions across aerospace and defence and medical, whilst refining our portfolio of businesses through acquisitions and disposals have transformed TT.

We believe our strategy to position TT to benefit from "electronics everywhere" will continue to strengthen the Group. Despite the current macroeconomic environment, our first half performance and order momentum position us well to make further progress in 2019 and beyond."

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 in industrial, medical, aerospace and defence, and transportation sectors. Products designed and manufactured include sensors, power management devices and connectivity solutions. TT has design and manufacturing facilities in the UK, US, Sweden and Asia.

The company has three divisions. 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 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 different products. We manufacture complex integrated product assemblies for our customers and provide engineering services including designing testing solutions and value-engineering.

Notes

1. Excluding the effect of restructuring and acquisition and disposal related items

2. Change at constant currency calculated by comparing current year actual results to the prior year results retranslated at current year actual exchange rates

3. Rolling 12 month underlying operating profit return on average invested capital

4. Return on invested capital, net debt and net debt to EBITDA for full year 2018

5. Underlying operating cash flow (underlying EBITDA less net capital expenditure, capitalised development expenditure, working capital and non-cash movements) divided by underlying operating profit

6. Net cash flow from operating activities less net cash flow from investing activities less interest paid less repayment of IFRS 16 leases

7. Net Debt excluding leases previously recognised as operating leases divided by underlying operating profit excluding the impact of IFRS 16, including full-year pro-forma effect for acquisitions. Measure used for our banking covenants.

The non-IFRS financial measures reported in this announcement are explained in note 5.

H1 2019 OVERVIEW

We are really pleased with the underlying performance of the Group in the first half, having delivered strong revenue growth, profit improvement and margin progression. Revenue grew by 20 per cent at constant currency to £238.2 million (H1 2018: £194.2 million), up 8 per cent organically. Foreign exchange had a £4.5 million positive impact. The incremental contribution from acquisitions in the first half was £23.6 million. Growth was driven by Power and Connectivity and Global Manufacturing Solutions with increased penetration of existing customers and a number of new customer wins. The aerospace and defence and medical markets, which now represent 45 per cent of the Group, grew by 37 per cent (27 per cent organically).

Underlying operating profit increased by 27 per cent at constant currency to £19.2 million (H1 2018: £14.6 million), with the improvement largely driven by operational leverage and better efficiency. Underlying operating profit from acquisitions was £1.6 million. The underlying operating profit margin was 8.1 per cent, up 60 basis points as reported and 50 basis points at constant currency (H1 2018: 7.5 per cent). Underlying earnings per share increased 28% to 8.8p, or by 22% on a constant currency basis.

Return on invested capital ("ROIC") continued to improve. ROIC was 11.3% and 11.7% excluding the impact of IFRS 16, up 20 basis points (FY 2018: 11.5%). Our cash performance reflects the strong growth momentum of the business. Cash conversion was 28 per cent (H1 2018: 105 per cent) reflecting a £15.1 million working capital outflow, with cash absorption into working capital driven by our strong organic growth together with first half seasonality. We expect the latter to reverse and our cash conversion overall to return to target levels through the second half of the year. The Group had a free cash outflow of £9.2 million (H1 2018: inflow £4.1 million). Net debt was £82.4 million at 30 June 2019, including £19.9 million of IFRS 16 lease liabilities (31 December 2018: £41.7 million).

STRATEGIC PROGRESS

We are making good progress with our strategic priorities which have strengthened the Group overall and are driving sales growth and margin improvement.

Strategic business development

By focusing on markets with structural growth drivers the business is exposed to the best growth dynamics.

The changes we have implemented in business development have also made a real difference. We continue to secure brand new customers and grow key accounts. We won significant contracts with two defence primes, one a brand-new customer. In particular, there are 8 notable aerospace and defence customers with whom we have grown revenues or won new contracts to position ourselves for future platform growth. Across medical markets, we have increased our sales with our 3 largest long-term customers, which contributed to strong growth during the period. We won a new medical customer in China with potential for growth and to develop into a strategic partner. As a result, revenues in aerospace and defence and medical markets grew by 27% organically.

This has now been supplemented with increased cross-selling between our divisions and our new acquisitions. As a result of this collaboration, we won new orders with an aerospace and defence customer and a British luxury automotive company. We also won a new medical customer in Precision for implantable hearing devices. We already see good opportunity from the acquisition of Power

Partners to introduce power supplies to our existing customers and a large global medical and life sciences OEM has already approved Power Partners as a potential supplier.

R&D and Value-added product solutions

During the period we invested £7.1 million in R&D, representing 5.4% of revenue from our Power and Connectivity and Sensors and Specialist Components divisions (H1 2018: £5.7 million). We launched a brand-new power solution, a prototype power conversion unit, at the Paris Air Show which follows the investment started last year for power solutions for aerospace and defence applications in our advanced technology centre. This brings together our experience and domain expertise as well as technology from individual components into a higher value solution. We are well positioned for longer term growth in our markets. We are working in strategic partnership with several aerospace and defence customers on technology demonstrator programmes for the next generation of aircraft from our advanced technology centres in the UK. We continue to focus our R&D investment in our core capabilities of power solutions for aerospace and medical applications, connectivity for the industrial internet of things, and specialist sensing capabilities.

Operational excellence

We continue to drive self-help actions to improve delivery to customers and drive margin enhancement. The investments made in 2018 have resulted in significant improvements in performance in our facilities in South Wales and Devon in the UK, and we won new customers following the operational improvements made. Our operational performance improvements have been recognised with a customer award from Rolls-Royce Controls Systems for being the most improved supplier, and a quality award from Honeywell.

We have initiated self-help actions given softening market dynamics in our Sensors and Specialist Components division to right size the cost base including closing two of our smaller facilities. We remain focused on the self-help opportunities available to the Group.

Value-enhancing acquisitions

The integration of Precision and Stadium into the Group is complete. Delivery of the synergy plans is progressing very well and three smaller facilities are being closed, with production consolidated into existing facilities. The enhanced total synergy plan for the two acquisitions of £2.5 million by 2020 remains on track.

On 22 March, we acquired Power Partners Inc, a small US power supply provider, which enhances our technology capabilities in power products and improves our medical market access accelerating our organic technology roadmap and US medical market presence. The consideration was $1.6 million on a cash free debt free basis, with an additional performance-based amount of up to $1.3 million payable over two years. We have already successfully generated cross-selling opportunities.

We continue to consider targeted, complementary acquisitions to accelerate our strategy, expand our technology offering and our market reach.

DIVISIONAL REVIEWS

SENSORS AND SPECIALIST COMPONENTS (27% of Group revenue)

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 2019	H1 2018	Change	Change constant fx
Revenue	**£64.1m**	£62.4m	3%	(2)%
Underlying operating profit	**£7.5m**	£8.6m	(13)%	(15)%
Underlying operating profit margin	**11.7%**	13.8%	(210)bps	(180)bps

Note: Prior period restated for the transfer of the Malaysian Magnetics business to Power and Connectivity division.
In 2018 the Malaysian Magnetics business generated revenue of £17.5 million and underlying operating profit of £2.8 million. In the first half of 2018, the business generated revenue of £8.9 million and operating profit of £1.3 million.

Revenue in the first half was £64.1 million (H1 2018: £62.4 million), up 3 per cent and down 2 per cent organically. Following a very strong performance over the last two years with component shortages contributing to strong growth, softer market conditions and inventory de-stocking in the first half across the market has impacted demand.

Underlying operating profit for the period was £7.5 million (H1 2018: £8.6 million), down 15 per cent at constant currency. Underlying operating margins were 11.7 per cent (H1 2018: 13.8 per cent). The reduction was a result of drop through from lower revenues and cost headwinds. We have accelerated actions to improve the efficiency of our cost base including optimising our footprint and fixed labour costs, and as result are in the process of closing 2 facilities and consolidating production within our existing footprint. The total cost of this program is circa £2 million, with a payback within 12 months. Initial benefits from this are expected in the second half of the year. We continue to review self-help actions available to us in the business.

Since 2015, we have ramped up investment in R&D to launch new products and provide more valuable custom development in partnership with our customers. We continued the momentum of new product launches including a new sensing and power management product released in the period for use in hybrid electric vehicle battery management and energy metering. During the period we have won positions with new and existing customers, including a contract with a US defence prime from a cross-selling opportunity following the acquisition of Precision last year. We are providing a custom sensor used in power management for a precision guidance mechanism. We have seen good growth in the period with a global industrial customer for our sensors which provide solutions for accurate information sensing for cash and card transactions. We are also winding down a tail of lower margin products to improve the quality of revenues in the division.

POWER AND CONNECTIVITY (28% of Group revenue)

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.

	H1 2019	H1 2018	Change	Change constant fx
Revenue	**£67.6m**	£47.6m	42%	40%
Underlying operating profit	**£7.2m**	£3.8m	89%	80%
Underlying operating profit margin	**10.7%**	8.0%	270bps	240bps

Note: Prior period restated for the transfer of the magnetics business to Power and Connectivity division.
In 2018 the Malaysian Magnetics business generated revenue of £17.5 million and underlying operating profit of £2.8 million. In the first half of 2018, the business generated revenue of £8.9 million and operating profit of £1.3 million.

Revenue for the first half grew to £67.6 million (H1 2018: £47.6 million), an increase of 40 per cent at constant currency and 4 per cent organically. We saw good growth in aerospace and defence, which now accounts for 41 per cent of revenues in the division. Acquisitions contributed £17.3 million of revenue.

Underlying operating profit was £7.2 million (H1 2018: £3.8 million), up 80 per cent at constant currency, with a £1.7 million operating profit contribution from acquisitions. There was a 240 basis point improvement in operating margin, to 10.7 per cent reflecting efficiency improvements from last year's process investments, combined with operational leverage on the strong growth.

We continue to benefit from the electrification of aircraft. We increased sales to key aerospace and defence customers and saw strong growth related to volume ramp up on defence and civil programmes for power products as well as satellite and space projects. We won a contract with a new space customer for satellite navigation solutions. We saw good growth with power products for Honeywell, with whom we also won a quality award.

We have invested in engineering for the next generation of power solutions working across components, sub-assemblies and power solutions. We are actively working on several industry, government and customer funded projects focused on new technology for the next generation of electrical solutions on aircraft, working alongside our key aerospace and defence customers.

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

The integration of Precision and Stadium into the Group is complete. Delivery of the synergy plans is progressing very well and three smaller facilities are being closed, with production consolidated into existing facilities. The enhanced total synergy plan for the two acquisitions of £2.5 million by 2020 remains on track.

In March, we acquired Power Partners, a small US based power supply provider which accelerates our technology roadmap for power products while improving our medical market access. We are already pursuing revenue synergy opportunities with power solutions for existing TT customers.

We continue to work to enhance relationships with our distributor partners to increase sales opportunities for our power supplies with our target customers. We saw good success in the period, winning an exclusive arrangement with a US distributor.

We continue to make progress with our new connectivity platform products, including with a European rail customer to provide preventative maintenance solutions and with a healthcare provider for medical wearable devices.

GLOBAL MANUFACTURING SOLUTIONS (45% of Group revenue)

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 2019	H1 2018	Change	Change constant fx
Revenue	**£106.5m**	£84.2m	26%	25%
Underlying operating profit	**£8.0m**	£5.9m	36%	33%
Underlying operating profit margin	**7.5%**	7.0%	50bps	50bps

We are particularly pleased with the strong growth as a result of targeting the right customers in the right markets who value the complex engineering solutions that we provide. Revenue for the first half was £106.5 million (H1 2018: £84.2 million), up 25 per cent at constant currency, and up 17 per cent organically. The incremental revenue from acquisitions was £6.3 million. Organically, revenue growth was driven by new and existing customers across all regions. The division has a record order book with increased visibility into 2020.

Underlying operating profit for the period was £8.0 million (H1 2018: £5.9 million), up 33 per cent at constant currency as a result of operational leverage on increased revenues and operational efficiency improvements. Underlying operating loss from acquisitions was £0.1 million. Underlying operating margins were 7.5 per cent, up 50 basis points at constant currency compared to the previous year (H1 2018: 7.0 per cent) We have transformed the business from one with a manufacturing focus on printed circuit board assemblies (PCBA) to increasingly providing value-added services to our customers. We have invested in engineering teams to enable the manufacture of complex box build assemblies and provide more sophisticated testing and engineering services. These services now represent nearly 60 per cent of revenues, up from 49 per cent in 2015. By providing value-added services, we are developing deeper and longer-term relationships with our customers.

Our approach to targeting customers that have good structural growth drivers in their own markets as well as being the right fit for our capabilities has been highly effective. During the period, we won 4 new customers across all regions, and three of these wins were for customers in aerospace and defence and medical markets, representing the shift towards longer-term programs, providing greater visibility of revenues. In aerospace and defence, we won a new contract for more complex engineering and manufacturing services in the UK, expanding on the PCBA services we were previously providing. We won a new 5-year contract with an existing medical customer on a long-term program. Medical projects won include a handheld surgical device used by doctors to seal blood vessels, cut tissue and stop bleeding and a bioanalytical measurement device used to analyse protein and cell biology for advancements in life sciences.

We have a demonstrated ability to grow our existing customer relationships over time, growing across programs and adding new value-added services to our offerings. Good growth in the period came from a Chinese rail infrastructure customer benefitting from increased government spending on the high-speed rail network nationally. By identifying the right customers that are positioned on long term programmes in aerospace and defence we have secured positions on major commercial aerospace platforms and the F35. We also engaged in a new business alliance with L3, a US based aerospace and defence company. We were awarded our first contract with L3 Aviation Products to support a substantial electronics manufacturing program for a key military program.

OTHER FINANCIAL INFORMATION

Corporate costs were £3.5 million (H1 2018: £3.7 million).

The net interest expense of £1.8 million increased by £1.2 million (H1 2018: £0.6 million) reflecting the Group's higher average level of net debt following the acquisitions of Stadium Group and Precision in Q2 2018 and the adoption of IFRS 16 which adds £0.5 million to interest. Underlying profit before tax improved by 24 per cent to £17.4 million (H1 2018: £14.0 million) representing a 20 per cent increase on a constant currency basis.

The tax credit in the period was £0.2 million (H1 2018: nil) comprising an underlying tax charge of £3.0 million (H1 2018: £2.8 million) and a credit on items excluded from underlying profit of £3.2 million (H1 2018: £2.8 million). The underlying effective tax rate for the continuing group was 17.2 per cent (H1 2018: 19.8 per cent; Full Year 2018: 16.8 per cent). Basic underlying earnings per share increased by 28 per cent to 8.8 pence (H1 2018: 6.9 pence), and by 22 per cent at constant currency.

Profit from continuing operations decreased to £5.3 million (H1 2018: £7.1 million), after a charge for items excluded from underlying profit of £12.3 million (H1 2018: £6.9 million). Restructuring and other costs comprised a charge of £8.2 million (H1 2018: credit £1.8 million) and related to restructuring in the Sensors and Specialist Components division, rationalisation of footprint acquired with Stadium to support delivery of the synergy plan, other restructuring and a pension past service charge. Acquisition and disposal costs of £4.1 million (H1 2018: £8.7 million) related to the acquisition of Power Partners, other integration costs and £2.6 million of non-cash items relating to the amortisation of acquisition intangibles. The cash costs relating to these items totalled £3.2 million (H1 2018: £4.7 million). Profit from discontinued operations was £1.1 million (H1 2018: £nil), relating to a tax provision release following the successful outcome of a tax audit.

Return on invested capital ("ROIC") continued to improve. ROIC was 11.3% and 11.7% excluding the impact of IFRS 16, up 20 basis points (FY 2018: 11.5%). Our cash performance reflects the strong growth momentum of the business. Cash conversion was 28 per cent (H1 2018: 105 per cent) reflecting a £15.1 million working capital outflow, with cash absorption into working capital driven by our strong organic growth together with first half seasonality. We expect the latter to reverse and our cash conversion overall to return to target levels through the second half of the year. The Group had a free cash outflow of £9.2 million (H1 2018: inflow £4.1 million).

Net capital expenditure and development expenditure totalled £9.3 million (H1 2018: £6.7 million), equivalent to 1.3 times owned-asset depreciation and amortisation, with increased spend to support growth including the upgrade of our facility in Bedlington, Northumberland.

The Group has implemented IFRS 16 Leases with effect from 1 January 2019. On adoption of the new standard, the Group recognised £18.0 million of right of use assets and £21.3 million of lease liabilities. The impact on the income statement in the first half has been to increase each of underlying operating profit and interest expense by £0.5 million. Comparative information for the prior year has not been restated.

Net debt at the end of the period was £82.4 million (2018 year-end: £41.7 million), including £19.9 million of IFRS 16 lease liabilities (2018 year-end: £nil). Net debt to underlying EBITDA at the end of the first half was 1.2 times (2018 year-end: 0.8 times).

The net accounting surplus under the Group's defined benefit pension schemes increased to £22.0 million (2018 year-end: £16.5 million). The improvement in the position of the schemes was due to higher returns on pension assets and deficit contributions of £6.0 million made to the UK schemes in the first half, partly offset by changes in financial assumptions. The Stadium Group (1974) pension scheme was merged into the TT Group scheme in March. The deficit contributions included a payment of £3.4 million on the merger of the Stadium Group (1974) scheme into the TT Group scheme to align funding levels.

DIVIDEND

The Board has declared an interim dividend of 2.1p pence per share, an increase of 8 per cent. Payment of the dividend will be made on 17 October 2019 to shareholders on the register on 27 September 2019.

OUTLOOK

We have delivered strong revenue and profit growth alongside further margin progression in the first half despite a tougher market backdrop.

The evolution of TT into a higher quality, better balanced Group reflects our strategic focus on picking the right customers in the right markets and investing in the right capabilities. The actions we have taken to concentrate on sensing, power and connectivity solutions across aerospace and defence and medical, whilst refining our portfolio of businesses through acquisitions and disposals have transformed TT.

We believe our strategy to position TT to benefit from "electronics everywhere" will continue to strengthen the Group. Despite the current macroeconomic environment, our first half performance and order momentum position us well to make further progress in 2019 and beyond.

GOING CONCERN

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 2018 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
6 August 2019

Mark Hoad
Chief Financial Officer
6 August 2019

Cautionary statement

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

Independent review report to TT Electronics plc

Conclusion

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 2019 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes. 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 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

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 Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements. 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.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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 DTR of the UK FCA. The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

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.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

Mike Barradell
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square | London | E14 5GL
6 August 2019

Condensed consolidated income statement (unaudited)

for the six months ended 30 June 2019

£million (unless otherwise stated)	Note	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Revenue	3	238.2	194.2	429.5
Cost of sales		(180.5)	(145.9)	(318.8)
Gross profit		57.7	48.3	110.7
Distribution costs		(14.4)	(12.5)	(26.4)
Administrative expenses		(37.3)	(28.2)	(69.5)
Other operating income		0.9	0.1	1.7
Operating profit		6.9	7.7	16.5
Analysed as:				
Underlying operating profit	3	19.2	14.6	33.4
Restructuring and other	5	(8.2)	1.8	(4.9)
Acquisition related costs	5	(4.1)	(8.7)	(12.0)
Finance income		0.4	0.3	0.5
Finance costs		(2.2)	(0.9)	(2.4)
Profit before taxation		5.1	7.1	14.6
Taxation	6	0.2	-	(1.6)
Profit from continuing operations		5.3	7.1	13.0
Discontinued operations				
Profit from discontinued operations		1.1	-	0.4
Profit for the period attributable to the owners of the Company		6.4	7.1	13.4
EPS attributable to owners of the Company (pence)				
Basic				
Continuing operations	7	3.3	4.4	8.0
Discontinued operations	7	0.6	-	0.3
		3.9	4.4	8.3
Diluted				
Continuing operations	7	3.2	4.3	7.8
Discontinued operations	7	0.6	-	0.3
		3.8	4.3	8.1

Condensed consolidated statement of comprehensive income (unaudited)

for the six months ended 30 June 2019

£million	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Profit for the period	**6.4**	7.1	13.4
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	**0.1**	3.0	6.3
Gain on hedge of net investment in foreign operations	**0.1**	0.6	1.7
Loss on cash flow hedges taken to equity less amounts taken to income statement	**(1.1)**	(1.7)	(2.4)
Items that will never be reclassified to the income statement:			
Remeasurement of defined benefit pension schemes	**(0.5)**	9.9	9.5
Tax on remeasurement of defined benefit pension schemes	**0.1**	(1.7)	(1.6)
Total comprehensive income for the period	**5.1**	17.2	26.9

Condensed consolidated statement of financial position (unaudited)

at 30 June 2019

£million	Note	30 June 2019	30 June 2018	31 December 2018
ASSETS				
Non-current assets				
Right-of-use assets		**14.6**	-	-
Property, plant and equipment		**50.8**	47.6	51.7
Goodwill		**138.9**	123.1	137.9
Other intangible assets		**53.3**	73.9	55.0
Deferred tax assets		**8.2**	3.7	6.1
Pensions	9	**26.3**	26.9	24.9
Total non-current assets		**292.1**	275.2	275.6
Current assets				
Inventories		**100.2**	87.8	96.4
Trade and other receivables		**86.2**	76.2	76.2
Income taxes receivable		**1.7**	1.4	1.6
Derivative financial instruments		**0.8**	0.4	0.4
Cash and cash equivalents	10	**51.7**	38.9	40.6
Total current assets		**240.6**	204.7	215.2
Total assets		**532.7**	479.9	490.8
LIABILITIES				
Current liabilities				
Lease liabilities		**3.7**	0.4	0.4
Derivative financial instruments		**3.8**	1.1	2.1
Trade and other payables		**94.1**	92.0	96.0
Income taxes payable		**10.4**	12.8	13.2
Provisions		**5.5**	5.6	4.4
Total current liabilities		**117.5**	111.9	116.1
Non-current liabilities				
Borrowings		**113.8**	79.3	81.7
Lease liabilities		**16.6**	0.4	0.2
Deferred tax liability		**6.0**	9.0	4.8
Pensions	9	**4.3**	7.1	8.4
Other non-current liabilities		**0.1**	0.1	0.1
Total non-current liabilities		**140.8**	95.9	95.2
Total liabilities		**258.3**	207.8	211.3
Net assets		**274.4**	272.1	279.5
EQUITY				
Share capital		**40.9**	40.8	40.8
Share premium		**3.5**	3.0	3.4
Other reserves		**2.0**	2.2	2.7
Hedging and translation reserve		**38.2**	35.4	39.1
Retained earnings		**187.8**	188.7	191.5
Equity attributable to owners of the Company		**272.4**	270.1	277.5
Non-controlling interests		**2.0**	2.0	2.0
Total equity		**274.4**	272.1	279.5

Approved by the Board of Directors on 6 August 2019 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 2019

£million	Share capital	Share premium	Hedging and translation reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interest	Total
At 31 December 2018	40.8	3.4	39.1	2.7	191.5	277.5	2.0	279.5
Adjustment on initial application of IFRS 16	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Adjusted balance at 1 January 2019	40.8	3.4	39.1	2.7	189.2	275.2	2.0	277.2
Profit for the period	-	-	-	-	6.4	6.4	-	6.4
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	0.1	-	-	0.1	-	0.1
Gain on hedge of net investment in foreign operations	-	-	0.1	-	-	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	187.8	272.4	2.0	274.4
At 1 January 2018	40.7	2.9	33.5	8.4	180.0	265.5	2.0	267.5
Profit for the period	-	-	-	-	7.1	7.1	-	7.1
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	3.0	-	-	3.0	-	3.0
Gain on hedge of net investment in foreign operations	-	-	0.6	-	-	0.6	-	0.6
Gain on cash flow hedges taken to equity less amounts taken to income statement	-	-	(1.7)	-	-	(1.7)	-	(1.7)
Remeasurement of defined benefit pension schemes	-	-	-	-	9.9	9.9	-	9.9
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	(1.7)	(1.7)	-	(1.7)
Total other comprehensive income	-	-	1.9	-	8.2	10.1	-	10.1
Transactions with owners recorded directly in equity:								
Equity dividends paid by the Company	-	-	-	–	(6.6)	(6.6)	-	(6.6)
Share-based payments	-	-	-	(5.4)	-	(5.4)	-	(5.4)
Deferred tax on share-based payments	-	-	-	(0.8)	-	(0.8)	-	(0.8)
New shares issued	-	0.2	-	-	-	0.2	-	0.2
At 30 June 2018	40.7	3.1	35.4	2.2	188.7	270.1	2.0	272.1

Condensed consolidated cash flow statement (unaudited)

for the six months ended 30 June 2019

£million (unless otherwise stated)	Note	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Cash flows from operating activities				
Profit for the period		6.4	7.1	13.4
Taxation		(0.2)	-	1.6
Net finance costs		1.8	0.6	1.9
Restructuring and other		8.2	(1.8)	4.9
Acquisition related costs		4.1	8.7	12.0
Profit from discontinued operations		(1.1)	-	(0.4)
Underlying operating profit		19.2	14.6	33.4
Adjustments for:				
Depreciation		6.9	4.5	9.8
Amortisation of intangibles		2.1	1.9	3.8
Other items		1.6	1.5	3.5
Increase in inventories		(3.2)	(9.1)	(16.2)
(Increase)/decrease in receivables		(10.0)	3.6	4.6
(Decrease)/increase in payables		(1.9)	5.0	9.5
Underlying operating cash flow		14.7	22.0	48.4
Special payments to pension funds		(6.0)	(2.5)	(5.3)
Restructuring, acquisition and disposal related costs		(3.2)	(4.7)	(11.2)
Net cash generated from operations		5.5	14.8	31.9
Net income taxes paid		(1.5)	(3.5)	(6.8)
Net cash flow from operating activities		4.0	11.3	25.1
Cash flows from investing activities				
Interest received		-	0.1	0.1
Purchase of property, plant and equipment		(7.1)	(4.5)	(13.4)
Proceeds from sale of investment property, plant and equipment and grants received		-	0.1	4.2
Development expenditure		(1.9)	(1.6)	(3.7)
Purchase of other intangibles		(0.3)	(0.7)	(2.1)
Acquisitions of businesses		(2.2)	(63.4)	(63.9)
Dividends paid by subsidiary to former shareholders		-	(0.8)	(0.8)
Cash with acquired businesses		0.1	(3.2)	(3.2)
Disposal of subsidiaries		-	1.8	1.5
Tax arising on disposal of subsidiaries		-	(2.9)	(2.9)
Net cash flow from investing activities		(11.4)	(75.1)	(84.2)
Cash flows from financing activities				
Issue of share capital		0.2	0.2	0.6
Interest paid		(1.9)	(0.6)	(1.7)
Repayment of borrowings		-	(9.8)	(15.0)
Proceeds from borrowings		31.9	80.0	86.7
Payment of lease liabilities (2018: payment of finance lease liabilities)		(2.2)	(0.1)	(0.3)
Other items		(2.1)	(6.9)	(7.9)
Dividends paid by the Company		(7.4)	(6.6)	(9.7)
Net cash flow from financing activities		18.5	56.2	52.7
Net increase in cash and cash equivalents		11.1	(7.6)	(6.4)
Cash and cash equivalents at beginning of year	10	40.6	46.5	46.5
Exchange differences	10	-	-	0.5
Cash and cash equivalents at end of period	10	51.7	38.9	40.6

Notes to the condensed consolidated financial statements (unaudited)

1. General information

The condensed consolidated financial statements for the six months ended 30 June 2019 are unaudited and were authorised for issue in accordance with a resolution of the Board of Directors. They do not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The comparative figures for the year ended 31 December 2018 are based on the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matter to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498 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 2018 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 2018.

The Group has implemented IFRS 16 Leases with effect from 1 January 2019. The standard provides a single lessee accounting model, requiring lessees to recognise right-of-use assets and lease obligations for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Group has applied IFRS 16 using the modified retrospective approach under which the cumulative effect of initial application has been recognised in retained earnings at 1 January 2019 and comparative information has not been restated and continues to be reported under IAS17.

The Group previously classified leases as operating or finance leases based on whether the lease transferred substantially all the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases (unless the lease term is 12 months or less or the underlying asset has a low value).

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

The Group has applied judgement to determine the lease term for contracts that include renewal options. The assessment of whether the exercise of such options is reasonably certain impacts the lease term, which significantly affects the amount of lease liability and right-of-use asset recognised.

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

The Group recognised depreciation of £1.8 million and impairment of £2.5 million (reported outside of underlying operating profit) in respect of right-of-use assets and interest costs of £0.5 million in respect of leases in the half year ended 30 June 2019.

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 2018. 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.

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. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review above and in note 13.

The Group had net debt of £82.4 million at 30 June 2019 (31 December 2018: £41.7 million). The Group had available £69.1 million of undrawn committed borrowing facilities and £39.2 million of undrawn uncommitted borrowing facilities, representing overdraft lines (£9.2 million) and the accordion facility (£30.0 million). Given the considerable financial resources available, together with long term partnerships with a number of key customers and suppliers across different geographic areas and industries, the Directors believe that the Group is well placed to manage its business risks successfully.

The 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 38 to 41 of the 2018 Annual Report provide details of the Group's policy on managing its operational and financial risks.

3. Segmental reporting

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

- Sensors and Specialist Components – The Sensors and Specialist Components division works with customers to develop standard and customised solutions including sensors and power management devices. Our solutions improve the precision, speed and reliability of critical aspects of our customers' applications;
- 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; and
- Global Manufacturing Solutions – The Global Manufacturing Solutions division provides manufacturing services and engineering solutions for our product divisions and to customers that often require a lower volume and higher mix of different products. We manufacture complex integrated product assemblies for our customers and provide engineering services including designing testing solutions and value-engineering.

The key performance measure of the operating segments is underlying operating profit. Refer to note 5 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.

The accounting policies of the reportable segments are the same as the Group's accounting policies and, other than the adoption of IFRS 16 Leases, are as published in the 2018 Annual Report.

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

£million	Sensors and Specialist Components	Power and Connectivity	Global Manufacturing Solutions	Total Operating Segments	Corporate	Six months ended 30 June 2019 Total
Sales to external customers	**64.1**	**67.6**	**106.5**	**238.2**	**-**	**238.2**
Underlying operating profit	**7.5**	**7.2**	**8.0**	**22.7**	**(3.5)**	**19.2**
Adjustments to underlying operating profit (note 5)						**(12.3)**
Operating profit						**6.9**
Net finance costs						**(1.8)**
Profit before taxation						**5.1**

£million	Sensors and Specialist Components	Power and Connectivity	Global Manufacturing Solutions	Total Operating Segments	Corporate	Six months ended 30 June 2018[1] Total
Sales to external customers	62.4	47.6	84.2	194.2	-	194.2
Underlying operating profit	8.6	3.8	5.9	18.3	(3.7)	14.6
Adjustments to underlying operating profit (note 5)						(6.9)
Operating profit						7.7
Net finance costs						(0.6)
Profit before taxation						7.1

£million	Sensors and Specialist Components	Power and Connectivity	Global Manufacturing Solutions	Total Operating Segments	Corporate	Year ended 31 December 2018[1] Total
Sales to external customers	132.2	115.5	181.8	429.5	-	429.5
Underlying operating profit	18.5	11.2	11.3	41.0	(7.6)	33.4
Adjustments to underlying operating profit (note 5)						(16.9)
Operating profit						16.5
Net finance costs						(1.9)
Profit before taxation						14.6

[1] re-stated for business transferred between segments

There is no significant revenue between segments.

Revenue by destination

£million	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
United Kingdom	71.5	55.1	122.4
Rest of Europe	44.7	36.4	79.8
North America	67.0	53.8	121.9
Central and South America	0.2	0.7	1.1
Asia	52.5	46.6	100.7
Rest of the World	2.3	1.6	3.6
	238.2	194.2	429.5

Revenue by market

£million	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Transport	26.8	29.1	51.2
Aerospace and defence	47.5	34.5	80.4
Industrial	105.3	88.6	205.4
Medical	58.6	42.0	92.5
	238.2	194.2	429.5

4. Acquisitions

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) and up to an additional $1.3 million (£1.0 million) which may become payable subject to business performance over the next two years. The provisional fair value of the net assets acquired were £1.4 million, resulting in goodwill recognised on acquisition of £0.8 million. From the date of acquisition to the period end the business generated revenue of £1.1 million and operating profit of £0.2 million.

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

On 1 June 2018 the Group acquired Precision Inc. for an initial consideration of £17.6 million, a further £0.4 million working capital adjustment paid in cash in 2018 and an additional £0.9 million based on business performance settled in cash in February 2019.

5. Alternative performance measures

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

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

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

Underlying operating profit

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

£million	Six months ended 30 June 2019		Six months ended 30 June 2018		Year ended 31 December 2018	
	Operating profit	Tax	Operating profit	Tax	Operating profit	Tax
As reported	6.9	0.2	7.7	-	16.5	(1.6)
Restructuring and other						
Restructuring	(7.8)	1.3	(1.8)	0.3	(2.7)	0.4
Property items	-	-	3.6	-	3.6	-
Pension past service charge	(0.4)	0.1	-	-	(5.8)	1.1
	(8.2)	1.4	1.8	0.3	(4.9)	1.5
Acquisition related costs						
Release of acquisition and disposal tax provision	-	1.0	-	1.7	-	0.6
Amortisation of intangible assets arising on business combinations	(2.6)	0.5	(2.7)	0.5	(4.8)	1.2
Other acquisition and disposal related costs	(1.5)	0.3	(6.0)	0.3	(7.2)	0.4
	(4.1)	1.8	(8.7)	2.5	(12.0)	2.2
Total items excluded from underlying measure	(12.3)	3.2	(6.9)	2.8	(16.9)	3.7
Underlying measure	19.2	(3.0)	14.6	(2.8)	33.4	(5.3)

Restructuring costs charged in the period relate to costs arising on the restructuring of the Sensors and Specialist Components division (£5.3 million), costs incurred restructuring the site footprint acquired with the Stadium Group (£1.1 million) and other restructuring (£1.4 million). A past service charge (£0.4 million) has been recognised as a result of UK pension schemes having to equalise male and female members' pension benefits in respect of guaranteed minimum pensions.

Acquisition related costs include amortisation of acquired intangible assets (£2.6 million) and other costs (£1.5 million) largely relating to the integration of Stadium Group and Precision Inc. and the acquisition of Power Partners Inc.

Free cash flow

This is defined as 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 previously reported as operating leases.

£million	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Net cash flow from operating activities	4.0	11.3	25.1
Net cash flow from investing activities	(11.4)	(75.1)	(84.2)
Add back: Acquisition of business	2.2	63.4	63.9
Add back: Dividends paid by subsidiary to former shareholders	-	0.8	0.8
Add back: Cash with acquired businesses	(0.1)	3.2	3.2
Add back: Disposal of subsidiaries	-	(1.8)	(1.5)
Add back: Tax arising from disposal of subsidiaries	-	2.9	2.9
Payment of lease liabilities previously reported as operating leases	(2.0)	-	-
Interest paid	(1.9)	(0.6)	(1.7)
Free cash flow	(9.2)	4.1	8.5

Underlying earnings per share

This is the profit for the year attributable to the owners of the Company adjusted to exclude the items not included within underlying operating profit divided by the weighted average number of shares in issue during the year. See note 7 for the calculation of underlying earnings per share.

Cash conversion

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

£million	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Underlying operating profit	19.2	14.6	33.4
Underlying operating cash flow	14.7	22.0	48.4
Purchase of property, plant and equipment	(7.1)	(4.5)	(13.4)
Proceeds from sale of plant and equipment and grants received	-	0.1	0.3
Development expenditure	(1.9)	(1.6)	(3.7)
Purchase of other intangibles	(0.3)	(0.7)	(2.1)
Underlying operating cashflow post capex	5.4	15.3	29.5
Cash conversion	28%	105%	88%

Organic revenue growth

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

Six months ended 30 June £million	Sensors and Specialist Components	Power and Connectivity	Global Manufacturing Solutions	Total
2019 revenue	**64.1**	**67.6**	**106.5**	**238.2**
Acquisitions	**-**	**17.3**	**6.3**	**23.6**
2019 revenue (excluding acquisitions)	**64.1**	**50.3**	**100.2**	**214.6**
2018 revenue[1]	62.4	47.6	84.2	194.2
Foreign exchange impact	(2.7)	(0.6)	(1.2)	(4.5)
2018 revenue at 2019 exchange rates	65.1	48.2	85.4	198.7
Organic revenue growth (%)	(2%)	4%	17%	8%

[1] re-stated for business transferred between segments

Underlying effective tax charge

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

£million	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Underlying operating profit	**19.2**	14.6	33.4
Net interest	**(1.8)**	(0.6)	(1.9)
Underlying profit before tax	**17.4**	14.0	31.5
Underlying tax	**3.0**	2.8	5.3
Adjusted underlying effective tax rate	**17.2%**	19.8%	16.8%

Return on invested capital

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

£million	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Underlying profit	**19.2**	14.6	33.4
Underlying profit H2 prior year (half year only)	**18.8**	13.4	-
Annualised underlying profit	**38.0**	28.0	33.4
Average invested capital	**337.1**	250.9	289.8
Return on invested capital	**11.3%**	11.2%	11.5%

6. Taxation

The half-year tax charge is based on a forecast effective tax rate of 17.2% 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. The enacted UK corporation tax rate applicable from 1 April 2017 is 19% and from 1 April 2020 is 17%.

7. 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 162.9 million (30 June 2018: 161.4 million, 31 December 2018: 161.8 million). Underlying earnings per share is based on the underlying profit after interest and tax.

Pence	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Basic earnings per share			
Continuing operations	3.3	4.4	8.0
Discontinued operations	0.6	-	0.3
Total	3.9	4.4	8.3
Diluted earnings per share			
Continuing operations	3.2	4.3	7.8
Discontinued operations	0.6	-	0.3
Total	3.8	4.3	8.1

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

£million	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Continuing operations			
Profit for the period attributable to owners of the Company	5.3	7.1	13.0
Restructuring and other	8.2	(1.8)	4.9
Acquisition related costs	4.1	8.7	12.0
Tax effect of above items (see note 5)	(3.2)	(2.8)	(3.7)
Underlying earnings	14.4	11.2	26.2
Underlying earnings per share (pence)	8.8	6.9	16.2

8. Dividends

	2019 pence per share	2019 £million	2018 pence per share	2018 £million
Final dividend for prior year	4.55	7.4	4.05	6.6
Interim dividend for current year	-	-	1.95	3.1
	4.55	7.4	6.00	9.7

The Directors have declared an interim dividend of 2.1 pence per share which will be paid on 17 October 2019 to shareholders on the register on 27 September 2019. Shares will become ex-dividend on 26 September 2019. The Group has a progressive dividend policy.

9. Retirement benefit schemes

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

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 2019	30 June 2018	31 December 2018
Fair value of assets	585.6	561.3	541.6
Present value of funded obligation	(563.6)	(541.5)	(525.1)
Net surplus recognised in the balance sheet	22.0	19.8	16.5
Represented by			
Schemes in net surplus	26.3	26.9	24.9
Schemes in net deficit	(4.3)	(7.1)	(8.4)
	22.0	19.8	16.5

Represented by:

£million	30 June 2019	30 June 2018	31 December 2018
TT Group (1993)	26.1	26.9	24.7
Stadium Group (1974)	-	(3.7)	(4.1)
Southern & Redfern	0.2	-	0.2
USA schemes	(4.3)	(3.4)	(4.3)
	22.0	19.8	16.5

The costs recognised in the condensed consolidated income statement are:

£million	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Scheme administration costs	0.5	0.5	1.3
Past service cost (non-underlying)	0.4	-	5.8
Net interest credit	(0.3)	(0.1)	(0.2)

The triennial valuation of the TT Group scheme as at April 2016 showed a deficit of £46.0 million against the Trustee's funding objective compared with £19.1 million at April 2013. The triennial valuation of the Stadium Group scheme as at April 2017 showed a deficit of £4.3 million against the Trustee's funding objective.

Under the existing recovery plan for the TT Group scheme, contributions of £5.1 million are to be paid in 2019 (of which £2.5 million had been paid in the first half of the year) and £3.9 million to be paid in 2020. On 29 March 2019 the Stadium Group scheme merged with the TT Group scheme. The outstanding deficit contribution payments due under the Stadium Group scheme's recovery plan were accelerated and £3.4 million was paid into the scheme immediately prior to the merger. In addition, 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 2019 in respect of UK schemes was £6.0 million.

A triennial actuarial valuation of the TT Group scheme as at April 2019 is currently in progress.

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

£million	Net cash	Borrowings and lease liabilities	Unamortised loan arrangement fees	Net (debt)/funds
At 1 January 2018	46.5	(0.6)	1.1	47.0
Reclassification of loan arrangement fees	-	1.1	(1.1)	-
Cash flow	(7.6)	-	-	(7.6)
Repayment of borrowings	-	9.8	-	9.8
Proceeds from borrowings	-	(80.0)	-	(80.0)
Payment of finance lease liabilities	-	0.1	-	0.1
Amortisation of loan arrangement fees	-	(0.2)	-	(0.2)
Businesses acquired	-	(10.3)	-	(10.3)
At 30 June 2018	38.9	(80.1)	-	(41.2)
Cash flow	1.2	-	-	1.2
Repayment of borrowings	-	5.2	-	5.2
Proceeds from borrowings	-	(6.7)	-	(6.7)
Payment of finance lease liabilities	-	0.2	-	0.2
Amortisation of loan arrangement fees	-	(0.2)	-	(0.2)
Exchange differences	0.5	(0.7)	-	(0.2)
At 31 December 2018	**40.6**	**(82.3)**	-	**(41.7)**
Adjustment on initial application of IFRS 16	-	**(21.3)**	-	**(21.3)**
Adjusted balance at 1 January 2019	**40.6**	**(103.6)**	-	**(63.0)**
Cash flow	**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 leases	-	**(0.2)**	-	**(0.2)**
Acquisitions	-	**(0.2)**	-	**(0.2)**
Exchange differences	-	**(0.2)**	-	**(0.2)**
At 30 June 2019	**51.7**	**(134.1)**	-	**(82.4)**

Net cash includes overdraft balances of £nil (30 June 2018 and 31 December 2018: £nil).

11. Share capital

The performance conditions of the Long Term Incentive Plan awards issued in 2016 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 130,628 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans. The aggregate consideration received was £0.2 million, which was represented by a £0.1 million increase in share capital and a £0.1 million increase in share premium.

12. Related party transactions

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. No related party transactions have taken place during the six months ended 30 June 2019 that have affected the financial position or performance of the Group.

13. Principal risks and uncertainties

As described on pages 40 to 41 of the 2018 Annual Report, the Group continues to be exposed to a number of operational and financial risks and has an established, structured approach to identifying, assessing and managing those risks. These risks relate to the following areas:

General economic downturn; contractual risks; research and development; people and capability; supplier resilience; IT systems and information; M&A and integration; and legal and regulatory compliance.