2021 Final Results, 9 March 2022

TT Electronics plc

Results for the year ended 31 December 2021

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A management presentation for analysts and investors will be held today at 08.30 and can be accessed on https://webcasting.brrmedia.co.uk/broadcast/61e13a95e3976b4d1b2d6d40. There will be a conference call and moderated Q&A session following this and to participate you will need to dial +44 (0)330 336 9601, confirmation code 5800399. A recording of the presentation and Q&A session will be available on the website later in the day.

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

Results for the year ended 31 December 2021

Strong performance and record order book into 2022

Financial Highlights

- Revenue and adjusted run-rate margin back to pre-COVID-19 levels
  - Full year revenue up 14% year-on-year at constant currency
  - Organic revenue growth of 10%
  - Adjusted operating margin up 90bps to 7.3%, run rate of 8.1% excluding Virolens costs
- Adjusted operating profit up 31% reflecting benefits of growth and self-help actions
- Statutory operating profit increased to £19.3m, statutory basic EPS of 7.3p
- Balance sheet strength maintained while investing to support future growth, margin enhancement and to manage supply chain constraints
- Record order book into 2022 with increased visibility into H2 (2021 book to bill of 137%), including GMS fully booked
- Total dividend increase of 19% to 5.6p, reflecting strong performance and positive outlook

Operational Highlights

- Pricing and operational improvements, including self-help programme, offsetting cost headwinds
- New commitment to deliver a 50% reduction in Scope 1&2 emissions by end of 2023[2], Net Zero Scope 1&2 by 2035. 25% tCO_2e reduction over last year
- Strong levels of employee engagement evidenced by results of our most recent survey[3]
- Torotel integrated ahead of plan and pipeline building
- Margin enhancing Ferranti acquisition in January 2022 expands technical capabilities

£ million (unless otherwise stated)	Adjusted Results[1]				Statutory Results	
	2021	2020	Change	Change constant fx	**2021**	2020
Revenue	**476.2**	431.8	10%	14%	**476.2**	431.8
Operating profit	**34.8**	27.5	27%	31%	**19.3**	6.6
Operating profit margin	**7.3%**	6.4%	90bps	100bps	**4.1%**	1.5%
Profit before taxation	**31.5**	23.8	32%	36%	**16.0**	2.9
Earnings per share	**14.5p**	11.7p	24%	28%	**7.3p**	0.8p
Return on invested capital	**9.1%**	7.7%				
Cash conversion	**65%**	130%				

	2021	2020
Free cash flow[1]	**(1.3)**	14.4
Net debt[1]	**102.5**	83.9
Leverage[1]	**1.7x**	1.6x
Dividend per share	**5.6p**	4.7p

Richard Tyson, Chief Executive Officer, commented:

"I'm really pleased with our strong organic growth in 2021, with revenue and adjusted run rate margins back to pre-pandemic levels. Significant increases in profits and EPS reflect the benefits of this growth, combined with our self-help initiatives, the successful integration of Torotel and excellent execution by the team. Our strategy is delivering, and we continue to invest for our future.

We continue to enhance the quality of our businesses and are making tangible progress towards double-digit adjusted operating margins. We have started 2022 with a record order book, which gives us the confidence and the visibility to achieve our growth plans for the year whilst continuing to manage the ongoing cost and supply chain challenges in partnership with our customers.

As a result, we are confident that TT's momentum will continue, with the outlook for financial performance in 2022 in line with management expectations, although we are mindful of increased geopolitical uncertainty. With good customer wins, strength in our target markets, and the commercial aerospace recovery still to come, we believe the Group is in a strong position for the future."

About TT Electronics

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

TT solves technology challenges for a sustainable world. TT benefits from enduring megatrends in structurally high-growth markets including healthcare, aerospace, defence, electrification and automation. TT invests in R&D to create designed-in products where reliability is mission critical. Products designed and manufactured include sensors, power management and connectivity solutions. TT has design and manufacturing facilities in the UK, North America, Sweden and Asia.

Notes

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 pages 17 to 19. The adjusted measures used are set out in the 'Reconciliation of KPIs and non IFRS measures' section on pages 40 to 48.*
2. *Against our 2019 baseline. We have improved the precision of our 2019-2021 Scope 1&2 carbon emissions data by using regional emissions factors rather than an emissions factor for the UK. This has led to a change in the data disclosed in 2019 and 2020.*
3. *Best Companies Ltd survey in which we maintained our excellent 2* rating*

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

We delivered a strong trading performance in 2021 with very good revenue and profit growth and as expected, a meaningful step forward towards double-digit adjusted margins. The growth in revenue and the strong order intake across all divisions reflect our strong customer relationships, momentum in our pipeline and the positive structural trends evident in our end markets. This performance has been delivered despite further COVID-19 disruption and significant supply chain and cost headwinds, and is thanks to our teams who have worked tirelessly throughout. We are proud and appreciative of their support and engagement.

Alongside a strong trading performance, particularly in our Sensors and Specialist Components and Global Manufacturing Solutions businesses, we have continued to execute our strategy and invest for future growth. During the year we have invested £11.4 million in research and development (R&D), continuing to develop and enhance our pipeline of new products.

We have also completed, ahead of plan, the integration of the Torotel acquisition. Torotel and Covina, have significantly advanced our power electronics capabilities and market reach in the US and the resulting increase in new customer opportunities is a direct result of our strategic approach to M&A. We now expect to deliver £13-14 million of full run-rate benefits in 2023 from our investment in the self-help programme which contributed £6 million benefits in 2021, in addition to the £2 million delivered in 2020. We are pleased with the progress made so far to deliver this significant programme, which is an important component of our path to double-digit operating margins.

Environmental, social and governance (ESG) matters are central to our purpose and deeply embedded in our business model and strategy. We have made further excellent progress in 2021 to reduce our Scope 1 and Scope 2 carbon emissions. These have decreased by 25 per cent to 15,740 tonnes CO_2e down from 20,875 tonnes CO_2e in 2020 and down 41 per cent from 26,657 tonnes CO_2e in 2019. This improvement has been achieved due to our energy efficiency actions and further switching to the use of electricity from renewable sources.

We continue to prioritise the protection and safety of our employees, our customers, our suppliers and our wider communities. We have greatly appreciated how our employees have responded to another year of challenges. Their skill, dedication and hard work, which they have constantly demonstrated in uniquely difficult conditions, have resulted in them going above-and-beyond to get things done well and on-time. We were delighted to once again record a very high employee engagement score during the year, which was achieved despite the continuing challenging working environment. We encourage our teams to take an active role in their local communities, whether fundraising and volunteering for chosen charities or committing time and resources to promoting STEM education and careers.

Results and operations

Group revenue for the year at £476.2 million was 14 per cent higher than the prior year at constant currency and 10 per cent higher on an organic[1] basis. There was a strong improvement in our financial performance with adjusted operating profit up by 31 per cent compared to 2020, reflecting the benefits of growth and our self-help programme.

In common with the broader industry, we have experienced supply chain challenges with extended lead times, component shortages and notable cost inflation. These have been largely mitigated through price increases, although there can be a lag effect. During the year, we adapted software tools and data analytics to enhance visibility of parts availability and sourcing in certain areas, helping to mitigate the impact of cost increases and lead-time extensions for our customers. We expect these cost headwinds and supply chain challenges to continue through 2022 but are confident of our ability to manage these, in partnership with our customers, and deliver on our growth plans.

There has been exceptionally strong order intake across the Group, reflecting underlying strength in our markets and new customer wins, as well as customers committing earlier to secure capacity. Order intake for 2021 was 137 per cent of revenue. The order book at the end of February 2022 is at record levels.

Adjusted operating profit was £34.8 million, 31 per cent higher than the prior year at constant currency. The adjusted operating margin was 7.3 per cent and, excluding the start-up costs related to Virolens, the adjusted run rate margin was 8.1 per cent. After the impact of adjusting items, including restructuring and acquisition and disposal costs, the Group's full year statutory operating profit was £19.3 million.

During the year we invested in our self-help programme to support margin improvement, and in inventory to support our high levels of growth, our increased customer order book and supply chain constraints on certain component parts. Cash conversion of 65 per cent (2020: 130 per cent) reflected this investment and included a working capital outflow totalling £14.7 million. This investment was partially offset by realising £9.1 million of proceeds from property disposals. On a statutory basis, cash flow from operating activity was £14.3 million (2020: £28.2 million). There was a free cash outflow of £1.3 million (2020: £14.4 million inflow). Dividend payments totalled £11.4 million (2020: £ nil).

We ended the year with net debt of £102.5 million (2020: £83.9 million), including IFRS 16 lease liabilities of £22.6 million (2020: £15.9 million). We have a strong balance sheet, and this includes a defined benefit pension scheme fully funded on an actuarial and self-sufficiency basis. At 31 December 2021 leverage was 1.7 times (2020: 1.6 times), within the Board's target leverage range of 1-2 times.

Our return on invested capital improved to 9.1 per cent in 2021, increasing by 140 basis points due to the growth in adjusted operating profit.

Dividend

Given our strong trading performance in 2021 and the positive outlook for 2022 and beyond, the Board is proposing a final dividend of 3.8 pence per share. The total cash cost of this dividend will be approximately £6.7 million. This, when combined with the interim dividend of 1.8 pence per share gives an increased total dividend of 5.6 pence (2020: 4.7 pence per share). Payment of the dividend will be made on 20 May 2022, to shareholders on the register at 29 April 2022.

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[1] *See 'Reconciliation of KPIs and non-IFRS measures' on page 40*

Our strategy

We solve technology challenges for a sustainable world, creating solutions that enable our customers to make products that are cleaner, smarter and healthier and that will benefit our planet and people for future generations. We create value through supplying products and services that meet our customers' sustainability ambitions in our target markets of healthcare, aerospace & defence and automation & electrification.

We have transformed the Group over the past seven years, aligning our business to structurally growing, higher added value markets with long-term customer partnerships and substantially reducing our exposure to lower-growth, cyclical areas. Our strategy is designed to leverage our assets to unlock TT's potential, delivering our deeply embedded capabilities and differentiators to our customers. This is enabled by strong capital discipline, a focus on cash generation and careful use of the balance sheet to facilitate continued investment.

Our markets

Healthcare (25 per cent of Group revenue)

In healthcare we provide design and manufacturing solutions for a range of diagnostic, surgical and direct patient care devices critical to the identification, treatment and prevention of disease. Growth is driven by a combination of ageing populations, growing patient expectations and innovative solutions. We have steadily increased our exposure to this attractive end market from 13 per cent of Group revenue in 2015. Our focus areas include life sciences and laboratory equipment, surgical devices, medical implants, and diagnostics and imaging equipment. By supporting our life sciences partners, we are collectively improving laboratory automation systems and enabling samples to be collected and analysed with minimal human intervention, the benefits of which are improved data reliability and accuracy, minimised wastage, and time-efficient procedures. Through developing smaller, lighter, more precise surgical devices, we are enabling reduced size of incisions, shortened recovery times, and improved overall patient outcomes. In addition, by improving the portability and ease of use of diagnostics, we are increasing the availability of medical imaging to point-of-care facilities. This promotes earlier detection and better monitoring, hence supporting measures taken to address the rising prevalence of cancer, cardiac, neurological, and musculoskeletal disorders.

COVID-19 has accelerated trends in the digital transformation and the automation/robotics of healthcare which can be served by TT specialisms including interventional healthcare devices, patient monitoring and laboratory equipment.

Pent-up demand, post the pandemic, for deferred elective surgery and for large installations for hospital or life science applications are expected to be supportive of market growth over the next few years.

Aerospace and Defence (18 per cent of Group revenue)

In aerospace and defence we provide solutions for high-reliability applications across a broad range of platforms operating on land, air and sea. Growth is driven by increasing electrification of these platforms, which supports fuel efficiency and safety. Commercial aerospace demand has been stable in 2021 against levels experienced since Q2 2020, with continued lower passenger-driven demand due to COVID-19. We anticipate a gradual recovery in aircraft production over several years, as long-term growth resumes. Fundamentally, the need for more efficient, safer, and environmentally friendly aircraft remains. This drives demand for increasingly advanced electronic systems and applications, complemented by demand from a growing, globalised middle-class population who exhibit greater propensity to travel.

In defence, our central focus is on collaborating with our customers to reduce size, weight, power, and cost (SWaP-C), while simultaneously enhancing command, control, communications, computing, intelligence, surveillance, and reconnaissance (C4ISR) capabilities. We have been successful recently in providing more integrated, design-led solutions, demonstrating our ability to deliver SWaP-C improvements. A recent example is the delivery of a significant increase in the power density of DC-DC converters for a major defence prime. We expect this to drive favourable shifts in product mix moving forward.

Automation and Electrification (39 per cent of Group revenue)

In automation and electrification markets, we are continuing to invest in developing capabilities which exemplify our low-volume, high-mix approach to address the needs of sophisticated automation and connectivity applications. Customers rely on us to help solve their toughest automation and electrification challenges, increasing their efficiency and helping them bring smart, new products to the market. Growth is being driven by factors including demand for sustainable solutions to improve energy efficiency, the use of robotics to improve productivity and the increasing use of remote asset tracking. Within electrification, our priority is in developing capabilities which will support increasing energy efficiency and connectivity. Core focus areas include complex systems integrations and AC and DC power conversion technologies. We are increasingly able to develop complete, high-value products and durable components featuring higher voltages. The positive long-term growth drivers in this market give us confidence that demand will increase for our power, sensing and connectivity solutions.

Creating value through technology investment

We prioritise organic investment in the business to maintain and drive differentiation in our markets and our offering to our customers. R&D is a key component of this, given its critical contribution to the ongoing health of the business, enabling us to stay ahead of customers' needs and meet the challenges they set us. Our investment in R&D is focused on bringing higher growth, more sustainable products to market. These typically yield higher returns and development is often undertaken in partnership with our customers. Our investment strategy includes leveraging acquired complementary capabilities targeted through mergers and acquisitions (M&A).

Our R&D cash investment in the year was £11.4 million (2020: £11.2 million), representing 4.5 per cent (2020: 4.8 percent) of the aggregate revenue of our product businesses.

We continue to bring a pipeline of exciting new products to market, including in areas where we have extended our technical capabilities through acquisition. Examples include:

- Our Power and Connectivity business has been working on an Aerospace Technology Institute (ATI) funded project developing high power DC/DC power conversion for increased electrification of military aerospace, commercial aerospace and hybrid electric and fully electric aircraft.
- We have also been investing in the surgical navigation and robotics market. This segment is experiencing sustained double-digit growth and is driven by several emerging clinical applications that provide the physician

with exceptionally accurate catheter placement, often eliminating the need for harmful radiation. The miniaturised and highly accurate characteristics of our technologies enable access to parts of the anatomy that in the past were difficult to navigate including the lung, brain and heart. Additionally, new applications for improved navigation needs have emerged to diagnose breast cancer.

- We are currently investing in a combination of AC/DC and DC/DC power conversion technologies in direct response to demand from aerospace and defence customers, as well as ruggedised wire harness and magnetic capabilities. These investments build upon our existing capabilities and give us a wider platform to support major aerospace and defence customers, many of whom are requiring power solutions that feature higher voltages and/or efficiency improvements from legacy designs.
- In the first half of 2021 the Virolens COVID-19 screening device achieved its first important regulatory milestone, gaining registration with the MHRA in Great Britain.

Creating value through margin enhancement

The pursuit of higher margins through our self-help programme and organic and inorganic growth remains core to the Group's strategy. We have made tangible progress to delivering double-digit adjusted operating margins with further improvement expected in 2022 and beyond. The actions we have taken this year bring the business closer to realising this, with key contributions from:

- Operational leverage from organic revenue growth;
- Improved efficiencies and reductions in overheads through our self-help programme; and
- Inorganic expansion developing technology offerings and market positions.

Our significant self-help programme, designed to reduce our footprint and fixed cost base, is nearing completion. The decision to relocate our Covina business to the Torotel site in Kansas will extend the programme timeline slightly, but also increase the benefits, some of which we will re-invest in R&D to further grow the business. The programme delivered £6 million of benefits in 2021, in addition to the £2 million delivered in 2020. With the addition of the Covina transfer to the programme, the previously guided full run-rate benefits of £11-12 million in 2023 are now expected to increase to £13-14 million in 2023.

The programme comprises a number of different activities. In 2021 we closed sites in Barbados, Carrollton and Corpus Christi, Texas transferring the activities from those sites to Bedlington, UK and Mexicali, Mexico and Plano, Texas. We have also made good progress in transferring manufacturing from Lutterworth, UK to Bedlington, UK. In June, we completed the sale of the freehold property of the Covina business as an extension of our self-help programme and agreed to lease the site back for a period of 12 months while we prepared for relocation. We have recently made the decision to integrate the Covina business into the Torotel site in Kansas City which will deliver a further £2 million of benefits. In addition, we have taken certain products end-of-life in 2021, as well as relocating the manufacture of other products within our existing footprint. This has enabled us to serve customers better, as well as achieve an improved level of profitability.

The total cash spend for the self-help programme is now expected to be £18.8 million. £10.2 million was spent in 2021, comprising restructuring cash spend of £2.3 million (net of £9.1 million after costs from property disposals) and project capital expenditure of £7.9 million (2020 spend: £3.8 million, including £1.5 of restructuring cash spend and £2.3 million of capital expenditure).

Our acquisitions contribute to higher Group margins. The acquisitions completed in 2020, Torotel, Inc and Covina, have operating margins above the TT Group average and we have reconfirmed our expectations for cost synergies. Furthermore, our recent acquisition of the Ferranti Power and Control business is expected to contribute mid-teens margins over time.

Creating value from mergers & acquisitions

M&A is an important part of our growth strategy as we look to add higher margin businesses which build scale and enhance our technology capabilities and market access, consolidating fragmented but valuable niche areas.

We create value by realising revenue synergies, including leveraging customer access, and by optimising operations and the supply chain. We invest in attractive, growing and higher margin segments that the Group knows well, and where we have competitive advantage.

The recent Ferranti Power and Control acquisition highlights this as we gained access to an IP-rich business with skilled employees and positions on long-term defence platforms.

The two power electronics businesses acquired in 2020, Covina, the California-based power supply business of Excelitas Technologies Corp. (completed January 2020) and Torotel, Inc (completed November 2020), based in Kansas have been very successful. Following the positive impact of Covina, the integration of Torotel's systems and processes into TT's Power and Connectivity division was completed ahead of schedule. We utilised our well-defined business integration model, which integrates major business processes including operations, procurement, finance, legal, IT and human resources. This was completed against a backdrop of COVID-related travel restrictions and other constraints. We are proud of the team and our new Torotel colleagues for undertaking this complex task so quickly and in challenging conditions.

We are very pleased with the performance and potential of Torotel. The acquisition has increased our scale and capabilities in the very large and attractive US defence market, and it has enhanced our US power electronics presence. We are realising the benefits from integrating the products across the Group and the cross-selling opportunities that are being generated with new tier one OEMs. Torotel is also benefiting from our investment and is able to partner more closely with clients and expand its product offering.

We have secured a number of new contract wins including an order for complex cable assemblies with a major US defence supplier that commenced in 2021 and a win in the radar electronics space that will start deliveries in 2022.

Our attention is now focused on creating value from improving operational performance, delivering further benefits from integrating the Covina business into the Torotel site and integrating Ferranti and the Torotel customer proposition more closely with our other businesses. This will focus on increased customer cross-selling, the integration of products from across the Group to provide higher-value customer offerings and leveraging our business development capabilities.

We are continuing to look for opportunities to extend TT's technology capabilities and market reach and currently see a good pipeline.

Environmental, social and governance (ESG)

Not only do we develop, design, engineer and manufacture products that enable reduced environmental impacts for our customers, but we are also optimising our own operations to reduce our impact on the environment. We seek to have a wider positive impact on society by understanding and prioritising employee needs, doing business responsibly and reaching out to our local communities. Our products address resource scarcity, improve energy efficiency, support renewables and drive productivity, connectivity and health. We are positioned to benefit from megatrends that are driving sustainable growth.

We remain at the forefront of delivering technologies that meet the ever-increasing demand for cleaner energy, smart monitoring systems and home automation. Our products can be found in a range of applications including:

- Renewable energy generation and smart grid metering
- Power management and energy control systems
- Water and wastewater measurement and monitoring

We have set ourselves a target to be Net Zero by 2035 for our Scope 1 & 2 emissions and we are undertaking a range of actions to deliver like-for-like reductions in our annual emissions, in accordance with our carbon reduction roadmap developed during the year. In the near term, we are making a new commitment to deliver a 50 per cent reduction in Scope 1 & 2 carbon emissions by the end of 2022, against our 2019 baseline, and a 55 per cent reduction by the end of 2023.

In 2021 we have reduced our Scope 1 & 2 carbon emissions by 25 per cent over 2020 levels, which themselves were 22 per cent lower than our baseline set in 2019. Our intensity ratio, which measures our Scope 1 & 2 emissions against our revenue has reduced to 33.0, down from 48.3 in 2020 and 55.7 in 2019. During 2021, five additional sites in the US transitioned to renewable energy contracts. As we look forward, further reductions in our carbon emissions will require other measures such as infrastructure and process projects to reduce electricity consumption and investment in solar power or a change in the approach of local Governments to provide renewables in Mexico, China and Malaysia. In 2022 we will undertake feasibility studies for possible solar projects.

For our Scope 3 emissions we have been assessing areas of materiality for the Group to better understand our emissions. Our top four most significant, and measurable categories are transportation (upstream and downstream), purchased goods and services, and waste, the last of which we are already measuring at certain locations. In 2021 we have made progress in improving the robustness of our reporting on the waste we send to landfill at site level.

TT has recently established a corporate partnership with the Carbon Disclosure Project (CDP) Supply Chain Management team to help measure our supply chain emissions. The data gathered will allow us to create a database, develop data gathering and measurement tools, assess the relevance and magnitude of each category, and put robust plans in place to reduce emissions. We will report on these plans once established.

In addition, we are focusing on reducing single-use plastics within the business; we have 10 sites that currently monitor this. We are in the process of verifying the data captured and will make a commitment to reducing this once we have established a baseline. Our continuing progress on ESG matters has been recognised externally, having received a rating of 'AA' in the latest MSCI ESG Ratings assessment and we have a 'C' rating from CDP.

ESG matters including culture, strategy, regulatory compliance, risk and internal controls are governed as part of our overall governance and risk management frameworks, ultimately overseen by senior management and the Board. An update on key health, safety and environmental (including sustainability) metrics is provided at each Board meeting and in-depth reviews are undertaken on at least an annual basis.

Our teams are passionate about finding solutions to the world's toughest technology challenges and delivering for customers. We champion knowledge, skills, innovation, problem solving and service in four key areas: power, connectivity, sensing and manufacturing &engineering. We set out to attract, promote and retain the best, diverse, talented people and we are focused on developing expertise at all levels of the organisation.

Outlook

We continue to enhance the quality of our businesses and are making tangible progress towards double-digit adjusted operating margins. We have started 2022 with a record order book, which gives us the confidence and the visibility to achieve our growth plans for the year whilst continuing to manage the ongoing cost and supply chain challenges in partnership with our customers.

As a result we are confident that TT's momentum will continue, with the outlook for financial performance in 2022 in line with management expectations, although we are mindful of increased geopolitical uncertainty. With good customer wins, strength in our target markets, and the commercial aerospace recovery still to come, we believe the Group is in a strong position for the future.

FINANCIAL OVERVIEW

Group revenue was £476.2 million (2020: £431.8 million). This included a £15.2 million contribution from acquisitions and adverse currency translation of £12.7 million. Group revenue was 14 per cent higher than the prior year at constant currency and 10 per cent higher on an organic basis. Sales volumes in key markets, with the notable exception of commercial aerospace, have rebounded and the strength of our order book, at an all-time high, and pipeline of new business opportunities gives us confidence that this momentum will continue.

The Group's adjusted operating profit was £34.8 million (2020: £27.5 million) and statutory operating profit was £19.3m (2020: £6.6m) after a charge for items excluded from adjusted operating profit of £15.5 million (2020: £20.9 million) including:

- Restructuring costs of £7.8 million (2020: £14.5 million) comprising £5.9 million relating to the restructure of the North America Resistors business, £1.5 million relating to the closure of our Lutterworth site, and £2.4 million relating to the other elements of our self-help programme. These costs were partially offset by a gain of £1.7 million from the disposal of freehold properties at Covina, and Corpus Christi (2020: £1.2 million property gain). In addition to this, there was a net gain of £0.3m relating to pension projects.

- Acquisition and disposal costs totalled £7.7 million (2020: £6.4 million) comprising £2.6 million (2020: £3.2 million) of integration and acquisition costs relating primarily to the Torotel integration and the Ferranti acquisition, which completed early in 2022. Amortisation of intangible assets arising on business combinations was £5.1 million (2020: £4.2 million). In 2020 there was a £1.0 million credit due to the release of the warranty and claims provision relating to the Transportation business.

The adjusted operating margin of 7.3 per cent (2020: 6.4 per cent) includes the start-up costs to establish the Virolens product line. Excluding these costs, the adjusted run-rate operating margin was 8.1 per cent. This improvement reflects operational leverage on our sales growth and the benefits of our self-help programme and was delivered despite increases in input costs linked to supply chain constraints, which we are in the process of recovering through price increases.

The net finance cost was £3.3 million (2020: £3.7 million). The Group's overall tax charge was £3.2 million (2020: £1.6 million), including a £3.0 million credit (2020: £2.7 million credit) on items excluded from adjusted profit. The adjusted tax charge was £6.2 million (2020: £4.3 million), resulting in an effective adjusted tax rate of 19.6 per cent (2020: 18.1 per cent).

Basic earnings per share (EPS) was 7.3 pence (2020: 0.8 pence) reflecting the increase in operating profit and the reduction in adjusting items set out above. Adjusted EPS increased to 14.5 pence (2020: 11.7 pence), reflecting the improved adjusted operating profit in the period.

The total net accounting surplus under the Group's defined benefit pension schemes was £74.5 million (2020: £30.5 million). The main driver of this was a rise in corporate bond yields reducing the Scheme's benefit obligation and an increase in the fair value of assets due to investment performance. The surplus also increased due to company contributions paid of £5.5 million, as the contribution plan continued as we work towards the buy-out of the UK scheme over time.

Adjusted operating cash inflow was £39.5 million (2020: £49.0 million inflow). Improved profitability was more than offset by a working capital outflow of £14.7 million (2020: £3.6 million inflow), including a £42.6 million investment in inventory to support the strong order book and to deal with supply chain constraints. Capital and development expenditure increased to £16.8 million (2020: £13.2 million) reflecting investment to support growth and as part of the self-help programme. This resulted in adjusted operating cash conversion of 65 per cent (2020: 130 per cent). On a statutory basis, cash flow from operating activity was £14.3 million (2020: £28.2 million).

There was a free cash outflow of £1.3 million (2020: inflow £14.4 million), net of £5.9 million of restructuring and acquisition related costs (2020: £8.1 million), relating to the self-help programme and acquisition costs associated with the Covina and Torotel acquisitions. Cash restructuring costs were net of £9.1 million of property disposal proceeds. Pension contribution payments in the year totalled £5.5 million (2020: £5.4 million).

Investments in acquisitions totalled £0.5 million (2020: £48.7 million) relating to deferred consideration on a prior year acquisition. The spend in 2020 reflected the acquisition of Covina, the acquisition of Torotel, Inc, including £3.0 million of debt acquired with Torotel, Inc and £3.8 million of debt like items, as well as £0.5 million of deferred consideration relating to a prior year acquisition. In 2020 there was £20.2 million of equity issuance, which primarily related to the Torotel acquisition placing. Dividend payments totalled £11.4 million (2020: £ nil).

At 31 December 2021 the Group's net debt was £102.5 million (31 December 2020: £83.9 million), including £22.6 million of lease liabilities (31 December 2020: £15.9 million). Leverage at 31 December 2021, consistent with the bank covenants, was 1.7 times (31 December 2020: 1.6 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.

	2021	2020	Change	Change constant fx
Revenue	**£140.2m**	£125.1m	12%	15%
Adjusted operating profit[1]	**£7.8m**	£10.3m	(24)%	(21)%
Adjusted operating profit margin[1]	**5.6%**	8.2%	(260)bps	(250)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 the section titled 'Reconciliation of KPIs and non IFRS measures' on page 40 of this document.

Revenue increased by £15.1 million to £140.2 million (2020: £125.1 million). There was a £15.2 million revenue contribution from Torotel which we acquired in November 2020 and there was an adverse currency effect of £3.4 million. Organic revenue was 3 per cent higher with growth in defence, healthcare and automation & electrification whilst aerospace volumes declined, particularly in Q1 2021, against Q1 2020 which was not impacted by COVID-19.

Adjusted operating profit reduced by £2.5 million to £7.8 million (2020: £10.3 million). Included within this was a profit contribution of £1.5 million from the Torotel acquisition. The adjusted operating margin was 5.6 per cent (2020: 8.2 per cent) which was impacted in part by a lag in the recovery of higher material and freight costs, given the longer cycle nature of the division. Run rate divisional margins were 8.3 per cent excluding the start-up costs incurred in relation to the Virolens project.

Operational excellence initiatives included the closure of the division's Lutterworth, UK site, and manufacturing has been transferred to Bedlington, UK. The closure consolidates the division's operations further within its existing operational footprint. We also initiated the footprint rationalisation at Covina, with the business being consolidated into the Torotel site at Kansas City, as one power business. The full benefits of these actions will be realised in 2023 and will support additional investment in R&D.

The Virolens production line was completed during the year and the product received its first regulatory approval from the MHRA in Great Britain. While we understand dialogue continues with other regulators there have been no further approvals.

There have been some notable contract awards during the year, including:

- Our engineering team in Minneapolis, Minnesota collaborated with Radwave Technologies, an innovative surgical navigation tracking technology company to develop smaller, more accurate sensor coils which support new procedures in structural heart and orthopaedic healthcare. This example is evidence of the success of our cross-selling efforts as our GMS business will also provide complete system manufacturing under an exclusive five-year contract. We also reached an agreement to become Radwave's exclusive provider of navigation sensors and early in 2022 further extended our partnership to the manufacturing of control unit and field generating antenna.

- In aerospace and defence, a cross selling opportunity that TT brought to the Torotel business generated over $2 million (over £1.5 million) in orders in 2021 for complex, ruggedised wire harness assemblies. We won through partnering with a major customer and investing in the capabilities needed to succeed in this market. We are now positioned to partner with other aerospace and defence customers to provide this product. With a second aerospace and defence prime, TT used its supply chain expertise to significantly reduce lead times and was the only supplier positioned to secure critical materials and meet programme requirements.

- In October, we were awarded a contract with a major defence prime, RBSL, for the main UK army vehicle programme for the next 10-20 years. We will provide complex high reliability power electronics assemblies to the Boxer vehicles. The multi-year contract worth over £5 million is centred around the development of two types of primary power assemblies and secures us a spot within the mechanised infantry vehicle supply chain. We will lead the design, production and delivery of the battery control units enabling increased efficiency of the vehicle power management system as well as the command display units providing signalling and communications functionality on every Boxer vehicle.

In January 2022 we were delighted to complete the £9 million acquisition of Ferranti Power and Control (P&C), based in Greater Manchester, which designs and manufactures mission-critical complex power and control sub-assemblies for blue chip customers in high-reliability and high-performance end markets, primarily aerospace and defence. One of the principal benefits of the acquisition is that it brings highly skilled employees who provide full-service capabilities from design, assembly, manufacturing, and testing including environmental stress screening and inspection through to service.

Ferranti P&C adds further technology capability, IP and scale to our Power business with valuable long-term customer relationships and programmes with leading global aerospace, defence and industrial OEMs operating in highly regulated markets with significant barriers to entry through necessary industry accreditations and customer approvals.

The acquisition is expected to be modestly earnings enhancing, to generate mid-teens operating margins and to generate a return on invested capital in excess of the Group's WACC in year one. We expect to generate cost synergies of circa £0.4 million by year three.

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.

	2021	2020	Change	Change constant fx
Revenue	**£220.1m**	£197.5m	11%	14%
Adjusted operating profit[1]	**£18.3m**	£15.0m	22%	24%
Adjusted operating profit margin[1]	**8.3%**	7.6%	70bps	60bps

[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 the section titled 'Reconciliation of KPIs and non IFRS measures' on page 40 of this document

Revenue increased by £22.6 million to £220.1 million (2020: £197.5 million) including an adverse currency effect of £4.1 million, with organic revenue 14 per cent higher. The organic revenue performance reflects good growth from our existing customer base and a particularly strong performance in the Asia region, particularly from our healthcare and automation & electrification end markets.

This division has performed incredibly well in 2021, reflecting our robust platform and targeted move towards customers who value our partnership and who are winners in their own growth markets. Work on positioning this business as a partner to our customers to win long-term incremental business is reflected in our order book growth. The addition of GMS capability to the Kuantan site in Malaysia, back in 2020, has added value through the expansion of our high-level assembly capabilities to a variety of key customers. The order book is such that the division is fully booked for 2022.

Adjusted operating profit increased by £3.3 million to £18.3 million (2020: £15.0 million). The increase reflects operational leverage on the organic growth delivered and benefits from our self-help programme, including factory efficiencies. The adjusted operating profit margin improved to 8.3 per cent (2020: 7.6 per cent).

During the year, in the face of increasing supply chain headwinds, we adapted software tools and data analytics to enhance visibility of parts availability and sourcing helping to mitigate the impact of cost increases and lead time extensions for our customers. Despite this intense focus, inventory levels at the year-end were impacted by increasing lead times on critical component parts.

There have been a number of significant new customer awards during 2021 which will impact future years, as follows:

- GMS won a contract with a world-leading life sciences customer for machines used in spectrometry elemental isotope analysis to understand the chemistry and composition of materials in healthcare and life sciences. We won the contract from an underperforming competitor based on our service and product quality. Demand from this customer continues to be driven by post pandemic growth in healthcare and life sciences technology markets

- We won a contract with a new customer, Azenta Life Sciences, based on our reputation with another medical prime. We are engaging on multiple services including value add and vertical integration. Azenta was looking for a manufacturing partner in Asia where a substantial amount of its life sciences revenue is realised, which could help mitigate global supply chain risks.

- A contract has been awarded with a long-standing customer to create a complete end-to-end supply chain solution for a next generation silicon carbon (SiC) inverter, a key component used in high performance electric vehicles. TT collaborated with this customer through the early design phase of the project and has been appointed the exclusive manufacturing partner for the SiC inverter.

- A new project with a renewable energy provider to provide solutions for voltage converters in offshore substations. This continues a ten-year collaboration to provide manufacturing solutions for multiple renewable energy projects.

- We are providing complex high-level assembly solutions for a customer's innovative micro-turbine generator technology that powers some of the largest mobile networks and TowerCos worldwide. TT is supporting this customer to provide cleaner, energy solutions that are transforming the off-grid telecoms power sector, providing clean, affordable and reliable power.

SENSORS AND SPECIALIST COMPONENTS

The Sensors and Specialist Components division works with customers to develop high-specification 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.

	2021	2020	Change	Change constant fx
Revenue	**£115.9m**	£109.2m	6%	11%
Adjusted operating profit[1]	**£16.4m**	£9.4m	74%	82%
Adjusted operating profit margin[1]	**14.2%**	8.6%	560bps	550bps

[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 the section titled 'Reconciliation of KPIs and non IFRS measures' on page 40 of this document.

Revenue increased by £6.7 million to £115.9 million (2020: £109.2 million) net of an adverse currency effect of £5.2 million. Organic revenue was 11 per cent higher, with the division's exposure to the automation & electrification market the driver of increased demand. This business is in the sweet spot of enabling our customers to reach their sustainability goals with components for smart energy & city infrastructure and factory automation.

Despite usually having limited visibility, the order book in this division has increased significantly reflecting strong underlying demand but also in part, customers committing orders further ahead to protect their supply chains and responding to lead time extensions.

Adjusted operating profit increased by £7.0 million to £16.4 million (2020: £9.4 million). Operating profit reflects the benefits of our self-help programme, some of which was achieved ahead of schedule, and the strong operational leverage on our revenue growth. We benefited from our agility in adapting our pricing strategies including timely price increases to offset ongoing material and freight cost increases. The adjusted operating profit margin was up 560 bps to 14.2 per cent (2020: 8.6 per cent).

As part of the Group's ongoing self-help programme, the closures of the sites in Barbados, Carrollton and Corpus Christi, Texas were completed in the year and we moved to our new facility in Plano, Texas. We have invested in capacity and improved yields which are enabling volumes to be produced at higher rates and are focused on improving our customer experience.

There were a number of favourable developments during the year which will benefit the business, including:

- We won a contract for defibrillator resistors which involved a collaboration between our engineers in the UK with our sales capabilities in Asia. The win includes production as well as test equipment charges

- We recently launched a revolutionary optical sensory array FlexSense™ designed to optimise optical encoder applications for evolving automation and healthcare markets. This product meets customer requirements for customised, high-end optical encoder sensors which can be configured for higher resolution, faster response and smaller footprint. It also enables acceleration of time-to-market and manufacturing throughput for our customers

- We have a proven track record for providing quality resistors for a technology and innovation customer. This customer awarded a contract for current sense and fusible resistors to ensure the safety of its battery pack for its industry leading, high-reliability and high specification products.

OTHER FINANCIAL INFORMATION

Summary of Adjusted results

To assist with the understanding of earnings trends, the Group has included within its non-GAAP alternative performance measures including adjusted operating profit and adjusted profit. Further information is contained in the 'Reconciliation of KPIs and non IFRS measures' on page 40.

A reconciliation of statutory to adjusted profit numbers is set out on page 19.

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

£ million	**2021**	**2020**
Revenue	**476.2**	431.8
Operating profit	**34.8**	27.5
Operating margin	***7.3%***	*6.4%*
Net finance expense	**(3.3)**	(3.7)
Profit before tax	**31.5**	23.8
Tax	**(6.2)**	(4.3)
Tax rate	***19.6%***	*18.1%*
Profit after tax	**25.3**	19.5
Weighted average number of shares	***174.8 million***	*166.5 million*
EPS	**14.5p**	11.7p

Cash flow, net debt and leverage

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

£ million	2021	2020
Adjusted operating profit	**34.8**	27.5
Depreciation and amortisation	**16.1**	17.0
Impairment of intangibles	**-**	0.2
Net capital expenditure[1]	**(14.9)**	(9.9)
Capitalised development expenditure	**(1.9)**	(3.3)
Working capital	**(14.7)**	3.6
Other	**3.3**	0.7
Adjusted operating cash flow after capex.	**22.7**	35.8
Adjusted operating cash conversion	***65%***	*130%*
Net interest and tax	**(8.7)**	(3.8)
Lease payments	**(3.9)**	(4.1)
Restructuring, acquisition and disposal related costs[1,2]	**(5.9)**	(8.1)
Retirement benefit schemes	**(5.5)**	(5.4)
Free cash flow	**(1.3)**	14.4
Dividends	**(11.4)**	-
Lease payments	**3.9**	4.1
Equity issued/acquired	**1.4**	20.2
Acquisitions & disposals[2]	**(0.5)**	(45.7)
Other	**(0.5)**	(1.8)
Increase in net debt	**(8.4)**	(8.8)
Opening net debt	**(83.9)**	(69.1)
New, acquired, modified and surrendered leases	**(10.8)**	(2.6)
Borrowings acquired	**-**	(3.0)
FX and other	**0.6**	(0.4)
Closing net debt	**(102.5)**	(83.9)

1 *In 2021 Restructuring, acquisition and disposal related costs' comprises proceeds on surplus property disposals of £9.1m*

2 *In 2020 'Restructuring, acquisition and disposal related costs' exclude a £3.8 million payment for a debt-like item which crystallised upon acquisition of Torotel and which has been presented within 'acquisitions and disposals.' This £3.8 million is an acquisition related cost*

At 31 December 2021 the Group's net debt was £102.5 million (31 December 2020: £83.9 million). Included within net debt was £22.6 million of lease liabilities (31 December 2020: £15.9 million).

Consistent with the Group's borrowing agreements, which exclude the impact of IFRS 16 Leases, leverage ratio was 1.7 times at 31 December 2021 (31 December 2020: 1.6 times). Net interest cover was 13.5 times (31 December 2020: 12.6 times). The Group's debt covenants state that the leverage ratio must not exceed 3.0 times and that interest cover must be more than 4.0 times.

Reconciliation of Adjusted results

Details of the reasons for and uses of adjusted measures are included in the section titled 'Reconciliation of KPIs and non IFRS measures' on page 40 of this announcement.

£ million	**2021**	**2020**
Operating profit	**19.3**	6.6
Adjusted to exclude:		
Restructuring and other items		
Restructuring	**9.8**	14.8
Property disposals	**(1.7)**	(1.2)
Pension and past service charge	**(0.3)**	0.9
Acquisition related costs		
Amortisation of intangible assets arising on business combinations	**5.1**	4.2
Release of warranty and claims provision relating to Transportation business divestment	**0.0**	(1.0)
Ferranti acquisition costs	**0.5**	
Torotel acquisition and integration costs	**1.5**	1.3
Other acquisition costs	**0.2**	1.3
Aborted acquisition and disposal costs	**0.4**	0.6
Total operating reconciling items	**15.5**	20.9
Adjusted operating profit	**34.8**	27.5
Profit before tax	**16.0**	2.9
Total operating reconciling items (as above)	**15.5**	20.9
Adjusted profit before tax	**31.5**	23.8
Taxation charge on adjusted profit	**(6.2)**	(4.3)
Adjusted profit after taxation	**25.3**	19.5

Cautionary statement

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

Consolidated income statement
For the year ended 31 December 2021

£million (unless otherwise stated)	Note	2021	2020
Revenue	3	476.2	431.8
Cost of sales		(360.6)	(332.7)
Gross profit		115.6	99.1
Distribution costs		(26.9)	(24.6)
Administrative expenses		(69.4)	(67.9)
Operating profit		19.3	6.6
Analysed as:			
Adjusted operating profit	3	34.8	27.5
Restructuring and other	6	(7.8)	(14.5)
Acquisition and disposal related costs	6	(7.7)	(6.4)
Finance income	5	1.1	0.6
Finance costs	5	(4.4)	(4.3)
Profit before taxation		16.0	2.9
Taxation	7	(3.2)	(1.6)
Profit for the period attributable to the owners of the Company		12.8	1.3
EPS attributable to owners of the Company (pence)			
Basic	9	7.3	0.8
Diluted	9	7.2	0.8

Consolidated statement of comprehensive income

For the year ended 31 December 2021

£million		2021	2020
Profit for the year		12.8	1.3
Other comprehensive income for the year after tax			
Items that are or may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations		3.4	(5.0)
Tax on exchange differences		-	0.3
(Loss)/gain on hedge of net investment in foreign operations		(0.2)	0.7
(Loss)/gain on cash flow hedges taken to equity less amounts recycled to the income statement		(3.2)	7.1
Deferred tax gain on movements in cash flow hedge reserves		0.5	-
Items that will never be reclassified to the income statement:			
Remeasurement of defined benefit pension schemes	11	35.8	8.6
Tax on remeasurement of defined benefit pension schemes	7	(11.4)	(2.1)
Total comprehensive income for the period attributable to the owners of the Company		37.7	10.9

Consolidated statement of financial position

As at 31 December 2021

£million	Note	2021	2020 [1]
ASSETS			
Non-current assets			
Right-of-use assets		19.6	12.4
Property, plant and equipment		50.4	53.0
Goodwill	4	156.5	155.7
Other intangible assets		51.7	57.1
Deferred tax assets	7	11.3	8.9
Derivative financial instruments		0.6	1.8
Pensions	11	78.4	35.4
Total non-current assets		368.5	324.3
Current assets			
Inventories		141.8	98.2
Trade and other receivables		86.2	71.3
Income taxes receivable		2.6	3.0
Derivative financial instruments		4.0	5.8
Cash and cash equivalents	10	68.3	70.2
Total current assets		302.9	248.5
Total assets		671.4	572.8
LIABILITIES			
Current liabilities			
Borrowings	10	1.1	2.3
Lease liabilities		4.1	3.6
Derivative financial instruments		1.3	1.1
Trade and other payables		133.9	90.2
Income taxes payable		7.1	7.5
Provisions	11	2.5	6.6
Total current liabilities		150.0	111.3
Non-current liabilities			
Borrowings	10	147.1	135.9
Lease liabilities		18.5	12.3
Derivative financial instruments		0.7	0.8
Deferred tax liability	7	20.2	8.6
Pensions	11	3.9	4.9
Provisions and other non-current liabilities		1.0	1.0
Total non-current liabilities		191.4	163.5
Total liabilities		341.4	274.8
Net assets		330.0	298.0
EQUITY			
Share capital	12	44.1	43.6
Share premium		22.6	21.7
Translation reserve		33.2	30.0
Other reserves		7.1	5.5
Retained earnings		221.0	195.2
Equity attributable to owners of the Company		328.0	296.0
Non-controlling interests		2.0	2.0
Total equity		330.0	298.0

1. Goodwill, deferred tax assets and trade and other receivables amounts at 31 December 2020 have been restated for the finalisation of the acquisition accounting with respect to Torotel, Inc. as described in note 4.

Approved by the Board of Directors on 8 March 2022 and signed on their behalf by:

Richard Tyson
Director

Mark Hoad
Director

Consolidated statement of changes in equity

As at 31 December 2021

£million	Share capital	Share premium	Translation Reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interest	Total
At 31 December 2019	41.0	4.1	34.0	(0.5)	187.4	266.0	2.0	268.0
Profit for the year	-	-	-	-	1.3	1.3	-	1.3
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	(5.0)	-	-	(5.0)	-	(5.0)
Tax on exchange differences	-	-	0.3	-	-	0.3	-	0.3
Gain on hedge of net investment in foreign operations	-	-	0.7	-	-	0.7	-	0.7
Gain on cash flow hedges taken to equity less amounts recycled to the income statement	-	-	-	7.1	-	7.1	-	7.1
Remeasurement of defined benefit pension schemes	-	-	-	-	8.6	8.6	-	8.6
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	(2.1)	(2.1)	-	(2.1)
Total comprehensive income	-	-	(4.0)	7.1	7.8	10.9	-	10.9
Transactions with owners recorded directly in equity								
Share-based payments	-	-	-	(0.8)	-	(0.8)	-	(0.8)
Deferred tax on share-based payments	-	-	-	(0.3)	-	(0.3)	-	(0.3)
New shares issued	2.6	17.6	-	-	-	20.2	-	20.2
At 31 December 2020	43.6	21.7	30.0	5.5	195.2	296.0	2.0	298.0
At 31 December 2020	43.6	21.7	30.0	5.5	195.2	296.0	2.0	298.0
Profit for the year					12.8	12.8	-	12.8
Other comprehensive income								
Exchange differences on translation of foreign operations	-	-	3.4	-	-	3.4	-	3.4
Loss on hedge of net investment in foreign operations	-	-	(0.2)	-	-	(0.2)	-	(0.2)
Loss on cash flow hedges taken to equity less amounts recycled to income statement	-	-	-	(3.2)	-	(3.2)	-	(3.2)
Deferred tax on gain on movement in cash flow hedges	-	-	-	0.5	-	0.5	-	0.5
Remeasurement of defined benefit pension schemes	-	-	-	-	35.8	35.8	-	35.8
Tax on remeasurement of defined benefit pension schemes	-	-	-	-	(11.4)	(11.4)	-	(11.4)
Total comprehensive income	-	-	3.2	(2.7)	37.2	37.7	-	37.7
Transactions with owners recorded directly in equity								
Equity dividends paid by the Company	-	-	-	-	(11.4)	(11.4)	-	(11.4)
Share-based payments	-	-	-	3.8	-	3.8	-	3.8
Deferred tax on share-based payments	-	-	-	0.5	-	0.5	-	0.5
New shares issued	0.5	0.9	-	-	(0.3)	1.1	-	1.1
Other movements	-	-	-	-	0.3	0.3	-	0.3
At 31 December 2021	44.1	22.6	33.2	7.1	221.0	328.0	2.0	330.0

Consolidated statement of cash flows
For the year ended 31 December 2021

£million	Note	2021	2020
Cash flows from operating activities			
Profit for the year		12.8	1.3
Taxation	7	3.2	1.6
Net finance costs		3.3	3.7
Restructuring and other		7.8	14.5
Acquisition related costs		7.7	6.4
Adjusted operating profit		34.8	27.5
Adjustments for:			
Depreciation		13.6	14.0
Amortisation of intangible assets		2.5	3.0
Impairment of property, plant and equipment and intangible assets		-	0.2
Share-based payment expense		3.8	1.0
Other items		1.1	(0.3)
(Increase)/decrease in inventories		(42.6)	4.2
(Increase)/decrease in receivables		(15.7)	11.2
Increase/(decrease) in payables and provisions		42.0	(11.8)
Adjusted operating cash flow		39.5	49.0
Special payments to pension funds	11	(5.5)	(5.4)
Restructuring and acquisition related costs		(15.0)	(15.1)
Net cash generated from operations		19.0	28.5
Net income taxes paid		(4.7)	(0.3)
Net cash flow from operating activities		14.3	28.2
Purchase of property, plant and equipment		(14.6)	(9.3)
Proceeds from sale of property, plant and equipment and government grants received		9.3	3.4
Capitalised development expenditure		(1.9)	(3.3)
Purchase of other intangibles		(0.5)	(0.8)
Acquisitions of businesses		(0.5)	(43.3)
Cash with acquired businesses		-	1.4
Net cash flow used in investing activities		(8.2)	(51.9)
Cash flows from financing activities			
Issue of share capital		1.4	20.2
Interest paid		(4.0)	(3.5)
Repayment of borrowings		(86.9)	(27.2)
Proceeds from borrowings		96.4	49.8
Capital payment of lease liabilities		(3.9)	(4.1)
Other items		(0.5)	(1.8)
Dividends paid by the Company	8	(11.4)	-
Net cash flow (used in) / from financing activities		(8.9)	33.4
Net (decrease)/increase in cash and cash equivalents		(2.8)	9.7
Cash and cash equivalents at beginning of year	10	69.0	60.2
Exchange differences	10	1.0	(0.9)
Cash and cash equivalents at end of year	10	67.2	69.0
Cash and cash equivalents comprise:			
Cash at bank and in hand		68.3	70.2
Bank overdrafts		(1.1)	(1.2)
		67.2	69.0

1 General information

The information set out below, which does not constitute full financial statements, is extracted from the audited financial statements

- was approved by the Directors on 8 March 2022;
- have been reported on by the Group's auditor; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006;
- will be available to the shareholders and the public in April 2022; and
- will be filed with the Registrar of Companies following the Annual General Meeting.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRSs") adopted pursuant to IFRSs as issued by the IASB, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full Financial Statements that comply with IFRSs during April 2022.

2 Basis of preparation

Going concern

The Group has experienced continued improvement in trading momentum and strong growth on our 2020 numbers. The structural growth markets we have selected to focus on have moved back towards their long-term growth trajectory, the benefits of our strategic repositioning and focus on building close relationships with our clients can be seen in both the order book and financial performance of the Group.

The Group's financial position remains strong, at 31 December 2021 it had:

• £318.9 million of total lease liabilities and borrowing facilities available comprising committed facilities of £276.3 million (net of £1.3 million loan arrangement fees and inclusive of £22.6 million of finance leases), uncommitted facilities of £42.6 million representing overdraft lines and an undrawn accordion facility of £30 million. The Group's primary source of finance is the £180 million committed revolving credit facility (RCF); at 31 December 2021 £73.4 million of this facility had been drawn down. The Group's RCF will mature in November 2023. In August 2021, TT agreed a debut issue of £75 million of private placement fixed rate loan notes with three institutional investors. The funds were received in December 2021 and the issue is evenly split between 7 and 10 year maturities with an average interest rate of 2.9% and covenants in line with our bank facility. The private placement complements, at an attractive rate, the Group's existing bank RCF, diversifying our sources of debt funding and providing us with a stable, long-term financing structure.

• A leverage ratio (banking covenant defined measure) of 1.7 times at 31 December 2021 compared to a RCF covenant maximum of 3.0 times. Interest cover (banking covenant defined measure) of 13.5 times compared to a RCF covenant minimum of 4.0 times.

The Group has prepared and reviewed cash flow forecasts across the business over the twelve-month period from the date of the approval of these financial statements, considering the Group's current financial position and the potential impact of our principal risks on divisions.

The Group's financial projections contain key assumptions surrounding revenue and operating profit growth in 2022. Under the Group's base case financial projections, the Group retains significant liquidity and covenant headroom, with both metrics improving from the position as at 31 December 2021.

The Group's financial projections have been stress tested for "business as usual" risks (such as profit growth and working capital variances), and the impact of the following principal risks: general revenue reductions, contractual risks, people and capability, supplier resilience and health and safety (occurring both individually and in unison). Principal risks which were not specifically modelled were either considered not likely to have an impact within the going concern period or their financial effect was covered within the overall downside economic risks implicit within the stress testing. Under the stress tested modelling, the liquidity headroom within the group remains significant. Financial covenants continue to be in compliance under the stress tested model and management have a number of mitigating actions which could be undertaken if required.

The Group's downside stress test scenario has been sensitised for supply chain challenges and inflationary pressure which shows a reduction in revenue and operating profit compared to the latest forecast. Despite this further reduction these projections show that the Group would remain well within its facilities headroom and within bank covenants for the next 12 months after the approval of these financial statements. A "reverse" stress-test was also modelled to understand the conditions which could jeopardise the ability of the Group to continue as a going concern including assessing against covenant testing and facility headroom. The stress testing also considered mitigating actions which could be put in place. Mitigating actions included limiting capital expenditure and reducing controllable costs including items such as discretionary bonuses and pay rises.

2 Basis of preparation continued

The reverse stress test is deemed to have a remote likelihood and help inform the Directors' assessment that there are no material uncertainties in relation to going concern.

The Group's wide geographical and sector diversification helps minimise the risk of serious business interruption or catastrophic reputational damage. Furthermore, the business model is structured so that the Group is not overly reliant on any single customer, market or geography.

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 accounts. Accordingly, the financial statements have been prepared on a going concern basis.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Critical judgements

In the course of preparing the Financial Statements, a critical judgement within the scope of paragraph 122 of IAS 1: "Presentation of Financial Statements" is made during the process of applying the Group's accounting policies.

Adjusting items

Judgements are required as to whether items are disclosed as adjusting, with consideration given to both quantitative and qualitative factors. Further information about the determination of adjusting items in the year ended 31 December 2021 is below.

There are no other critical judgements other than those involving estimates, that have had a significant effect on the amounts recognised in the Financial Statements. Those involving estimates are set out below.

Key sources of estimation uncertainty

Assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

- Note 4 – Goodwill in relation to the IoT Solutions cash generating unit ("CGU"). The carrying amount of goodwill at 31 December 2021 was £156.5 million (2020: £155.7 million). Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which the goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from CGUs and a suitable discount rate in order to calculate present value. At 31 December 2021 and 31 December 2020, the Group recognised no impairment loss in respect of goodwill. Further information, including a sensitivity analysis on the key assumptions, is provided in note 4. The carrying amount of the IoT Solutions CGU's goodwill was £27.7 million (2020: £27.6 million). Due to the impact of current supply chain challenges, as explained in note 4, IoT Solutions CGU shows headroom of £5.8 million and is sensitive to a reasonably possible change in assumptions; discount rate, long-term growth rate, successful launch of new products and short term operating cash flow. At 31 December 2021 and 31 December 2020, the Group recognised no impairment loss in respect of these assets. Further information, including a sensitivity analysis on the key assumptions, is provided in note 4.
- Note 7 – Taxation. Accruals for tax contingencies require management to make judgements and estimates in relation to tax authority audits and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. These amounts are expected to be utilised or to reverse as tax audits occur or as the statute of limitations is reached in the respective countries concerned. The Group's current tax liability at 31 December 2021 includes tax provisions of £6.9 million (2020: £6.4 million). The Group believes the range of reasonable possible outcomes in respect of these exposures is tax liabilities of up to £9.0 million (2020: £8.2 million).

2 Basis of preparation continued

- Note 11 – Defined benefit pension obligations. At 31 December 2021 the Group operated two defined benefit schemes in the UK (the TT Group (1993) Pension Scheme and the Southern & Redfern Ltd Retirement Benefits Schemes) and overseas defined benefit schemes in the USA. These schemes are closed to new members and the UK schemes are closed to future accrual. The defined benefit obligations in respect of the plans are discounted at rates set by reference to market yields on high quality corporate bonds. Significant estimation is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds to include are the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. In addition, assumptions are made in determining mortality and inflation rates to be used when valuing the plans' defined benefit obligations. Whilst actual movements might be different to sensitivities shown, there is a reasonably possible change that could occur. At 31 December 2021, the retirement benefit plan was in a surplus of £74.5 million (2020: £30.5 million).
- Virolens. The carrying amount of Virolens related assets at 31 December 2021 was £4.8 million (2020: £4.5 million). The assets consist of inventory, property, plant and equipment, and capitalised development expenditure. The value of these assets is dependent upon the success of the Virolens product, requiring management to estimate the future cash flows in a range of possible outcomes. The key sources of estimation uncertainty are our customers' ability to obtain regulatory approval and potential end customers converting expressions of interest into firm funded orders. Our customer continues to progress with regulatory approvals and global interest remains strong given new COVID strains and vaccine limitations (efficacy and supply). If regulatory approval is not obtained it is likely the assets related to Virolens will require impairment.

Alternative performance measures

The Group presents Alternative Performance Measures ("APMs") in addition to the statutory results of the Group. These are presented in accordance with the guidelines on APMs issued by the European Securities and Markets Authority ("ESMA").

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

In addition to the items above, adjusting items impacting profit after tax include:

- The net effect on tax of significant restructuring from strategy changes that are not considered by the Group to be part of the normal operating costs of the business; and
- The tax effects of adjustments to profit before tax.

These financial statements include alternative performance measures that are not prepared in accordance with IFRS. These alternative performance measures have been selected by the Directors 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.

The Directors consider the adjusted results to be an important measure used to monitor how the businesses are performing as this provides a meaningful reflection of how the businesses are managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.

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 or an aggregation of operating segments in accordance with IFRS 8 'Operating Segments'. The chief operating decision maker is the Chief Executive Officer. 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. Power and Connectivity is an aggregation of two operating segments due to similarities in products and markets served;
- 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 adjusted operating profit. Refer to the section titled 'Reconciliation of non IFRS measure' for a definition of adjusted 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 adjusted operating profits for each segment.

Inter- segment pricing is determined on an arms length basis in a manner similar to transactions with third parties.

The Group's geographical segments are determined by the location of the Group's non-current assets and, for revenue, the location of external customers. Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments. Goodwill is allocated to the individual cash generating units which may be smaller than the segment of which they are part.

a) Income statement information

						2021
£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total Operating Segments	Corporate	Total
Sales to external customers	140.2	220.1	115.9	476.2	-	476.2
Adjusted operating profit	7.8	18.3	16.4	42.5	(7.7)	34.8
Add back: adjustments made to operating profit (note 6)						(15.5)
Operating profit						19.3
Net finance costs						(3.3)
Profit before taxation						16.0

						2020
£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total Operating Segments	Corporate	Total
Sales to external customers	125.1	197.5	109.2	431.8	-	431.8
Adjusted operating profit	10.3	15.0	9.4	34.7	(7.2)	27.5
Add back: adjustments made to operating profit (note 6)						(20.9)
Operating profit						6.6
Net finance costs						(3.7)
Profit before taxation						2.9

3 Segmental reporting continued

b) Geographic information

Revenue by destination

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

£million	2021	2020
United Kingdom	100.2	100.2
Rest of Europe	78.6	74.8
North America	182.7	164.9
Asia	113.3	88.8
Rest of the World	1.4	3.1
	476.2	431.8

C) Market information

Revenue by market

The Group operates in the following markets

£million	2021	2020 [1]
Healthcare	118.8	100.4
Aerospace and defence	85.5	91.9
Automation and electrification	186.3	157.9
Distribution	85.6	81.6
	476.2	431.8

1. Revenue by market in 2020 has been restated following a reclassification of end markets for several key customers.

4 Goodwill

£million	
Cost	
At 1 January 2020	136.1
Additions	23.7
Net exchange adjustment	(2.9)
At 31 December 2020	156.9
Remeasurement of acquired fair values	(1.2)
Adjusted balance as at 31 December 2020	**155.7**
Net exchange adjustment	0.8
At 31 December 2021	**156.5**

In June 2021 the Group received new information about conditions which were present at the time of the acquisition of Torotel, Inc, namely that the PPP loan from the US government COVID-19 support scheme that was recognised in full on the acquisition balance sheet, was waived. The Group has updated the acquisition balance sheet to reflect this new information. The effect on the acquired balance sheet and the Group's consolidated statement of financial position as at 31 December 2020 was to decrease goodwill by £1.4 million with a corresponding increase in trade and other receivables.

During the year it was determined that the deferred tax asset on the acquisition balance sheet for Torotel, Inc. was overstated by £0.2 million. The Group has updated the acquisition balance sheet to reflect this new information. The effect on the acquired balance sheet and the Group's consolidated statement of financial position as at 31 December 2020 was to increase goodwill by £0.2 million with a corresponding decrease in deferred tax assets.

4 Goodwill continued

The goodwill generated as a result of acquisitions represents the premium paid in excess of the fair value of all net assets, including intangible assets, identified at the point of acquisition. The future improvements applied to the acquired businesses, achieved through a combination of revised strategic direction, operational improvements and investment are expected to result in improved profitability of the acquired businesses during the period of ownership. The combined value achieved from these improvements is expected to be in excess of the value of goodwill acquired.

Goodwill is attributed to the following CGUs in the divisions shown below:

£million	2021	2020
Power and Connectivity:		
Power Solutions [2]	57.0	56.7
IoT Solutions	27.6	27.6
Global Manufacturing Solutions:		
Global Manufacturing Solutions	18.4	18.2
Sensors and Specialist Components:		
Resistors	30.5	30.1
Sensors [1]	23.0	23.1
	156.5	155.7

1. In the prior year the Sensors CGU comprised of the Optoelectronics CGU and the Roxspur CGU with respective goodwill of £21.0 million and £2.1 million.
2. The carrying value of Goodwill attributable to the Power Solutions CGU at 31 December 2020 has been restated following the finalisation of the acquisition accounting.

The Group tests goodwill impairment annually or more frequently if there are indications that goodwill might be impaired. Effective from the year ended 31 December 2021, the date of the annual impairment test has been moved to 30 September 2021 to better align with internal forecasting and review processes. The key assumptions used in the 30 September impairment testing were reassessed at 31 December, however, there were no further indicators of value decline that necessitated further consideration.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and operating cash flow projections over a forecast period. The growth rate assumed after this forecast period is based on long-term GDP projections capped at long term growth rates (which are approximated as long term inflation rates) of the primary market for the CGU, in perpetuity. Long-term growth rates are based on long-term forecasts for growth in the sectors and geography in which the group of CGUs operates. Long-term growth rates are determined using long-term growth rate forecasts that take into account the international presence and the markets in which each business operates.

Management estimate discount rates using pre-tax rates that reflect current market assessments of the Group's time value of money and the risks specific to the CGU being measured.

In determining the cost of equity, the Capital Asset Pricing Model ("CAPM") has been used. Under CAPM, the cost of equity is determined by adding a risk premium, based on an industry adjustment, to the expected return of the equity market above the risk-free return. The relative risk adjustment reflects the risk inherent in each group of CGUs relative to all other sectors and geographies on average.

The cost of debt is determined using a risk-free rate based on the cost of government bonds, and an interest rate premium equivalent to a corporate bond with a similar credit rating to TT Electronics Plc.

The growth rates assume that demand for our products remains broadly in line with the underlying economic environment in the long-term future. Taking into account our expectation of future market conditions, we believe that the evolution of selling prices and cost measures put into place will lead to a sustained improvement in profitability.

Management has detailed plans in place reflecting the latest budget and strategic growth plan. The pre-tax discount rates and periods of management approved forecasts are shown below. The discount rates used in the annual impairment test for the year ended 31 December 2021, which was performed on 30 September 2021 are shown below:

4 Goodwill continued

	2021			2020		
	Pre-tax discount rate	Long term growth rate	Period of forecast (years)	Pre-tax discount rate	Long term growth rate	Period of forecast (years)
Power Solutions	12.2%	1.7%	5	11.6%	1.7%	3
IoT Solutions	12.2%	1.6%	5	11.5%	1.8%	5
Global Manufacturing Solutions	13.2%	1.8%	5	13.3%	2.2%	3
Resistors	13.3%	1.6%	5	12.9%	1.7%	3
Sensors [1]	13.8%	1.7%	5	11.8%	1.6%	3

1. In the prior year the Sensors CGU comprised of the Optoelectronics CGU and the Roxspur CGU with respective long term growth rates of 1.6% and 1.6%, and pre-tax discount factors of 13.8% and 11.5%.

No impairment losses have been recognised in the current or prior year as recoverable amounts exceed the total carrying value of assets for all of the CGUs.

Key assumptions in the value in use test is the projected performance of the CGUs based on sales growth rates, cash flow forecasts and discount rate. Forecast sales growth rates are based on past experience adjusted for the strategic direction and near-term investment priorities within each CGU. The key assumptions include externally obtained growth rates in the key markets disclosed in note 3 and customer demand for product lines. Cash flow forecasts are determined based on historic experience of operating margins, adjusted for the impact of changes in product mix and cost-saving initiatives, including the impact of our restructuring projects and cash conversion based on historical experience.

The recoverable amounts associated with the goodwill balances which are based on these performance projections and based on current forecast information do not indicate that any goodwill balance is impaired. If a company's actual performance does not meet these projections this could lead to an impairment of the goodwill in future periods. The pandemic resulted in supply chain challenges within the markets in which the Group operates and are restricting the level of growth in the near term. Inflationary pressure on materials is assumed to be largely passed on in the base case.

Sensitivity analysis has been performed on the key assumptions; operating cash flow projections, revenue growth rates and discount rate. Cash flows can be impacted by changes to sales prices, direct costs and replacement capital expenditure; individually they are not significant assumptions. Forecast sales growth rates are based on past experience adjusted for the strategic direction and near-term investment priorities. Cash flow forecasts are determined based on historic experience of operating margins, adjusted for the impact of changes in product mix and cost-saving initiatives, including the impact of our committed restructuring projects and cash conversion based on historical experience.

The Directors have not identified changes in significant assumptions that would cause the carrying value of recognised goodwill to exceed its recoverable amount except for IoT Solutions.

Due to reduced forecast revenues resulting from the short-term supply chain challenges, an indicator of impairment was identified in respect of goodwill allocated to IoT Solutions.

IoT Solutions CGU operates in markets with strong growth fundamentals and the short term forecasts for the IoT Solutions CGU include revenue and margin growth from successful product launches, and post COVID-19 demand recovery in the short and medium term. These forecasts exclude any potential benefits from the Virolens rapid COVID-19 screening device given the wide range of possible outcomes.

IoT Solutions CGU shows headroom of £5.8 million above the £60.0 million carrying amount, including £27.6m of goodwill. The growth rates assume that demand for our product remains 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. The IoT Solutions CGU's forecasts are reliant upon its ability to execute on new business opportunities and technologies. The order book has grown significantly in the last 12 months so the near term focus is on execution. Delays, cancellations, and adjustments to the scheduled level of demand will impact the carrying value of the goodwill. In accordance with IAS 36 'Impairment of Assets' 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 assumptions.

4 Goodwill continued

A reduction in operating cash flow of 9.0 per cent in all forecast periods would also reduce headroom to £nil. Management does not consider that the relevant change in these assumptions would have a consequential effect on other key assumptions.

A reduction in terminal revenue of 15.2 per cent and terminal operating profit of 2.0 per cent (driven by project delivery delays or lower than anticipated margin) would reduce headroom to £nil.

A failure to deliver the successful launch of new products and exploit potential market share could impact margin and cash flow assumptions. A reduction in the terminal operating margin of 2.7 per cent and terminal cash conversion of 10.0 per cent in combination would reduce headroom to £nil.

5 Finance costs and finance income

£million	2021	2020
Interest income	0.2	0.1
Net interest income on pension schemes in surplus	0.9	0.5
Finance income	1.1	0.6
Interest expense	3.1	3.0
Interest on lease liabilities	0.8	0.8
Net interest expense on pension schemes in deficit	0.1	0.1
Amortisation of arrangement fees	0.4	0.4
Finance costs	4.4	4.3
Net finance costs	3.3	3.7

6 Adjusting items

As described in note 2, adjusted profit measures are an alternative performance measure used by the Board to monitor the operating performance of the Group.

		2021		2020
£million	Operating profit	Tax	Operating profit	Tax
As reported	19.3	(3.2)	6.6	(1.6)
Restructuring and other				
Restructuring	(9.7)	1.2	(14.8)	1.8
Property disposals	1.7	(0.2)	1.2	-
Pension costs	(1.5)	0.2	(0.9)	0.1
Pension increase exchange exercise	1.8	(0.2)	-	-
Other items	(0.1)	-	-	-
	(7.8)	1.0	(14.5)	1.9
Acquisition and disposal related costs				
Amortisation of intangible assets arising on business combinations	(5.1)	(0.3)	(4.2)	0.4
Release of warranty and claims provision	-	-	1.0	(0.1)
Torotel acquisition and integration costs	(1.5)	0.6	(1.3)	0.2
Covina acquisition and integration costs	(0.2)	0.1	(1.3)	0.2
Ferranti Power and Control acquisition costs	(0.5)	0.2	-	-
Other acquisition and disposal related costs	(0.4)	0.1	(0.6)	0.1
Tax losses relating to the disposal of the transportation division	-	1.3	-	-
	(7.7)	2.0	(6.4)	0.8
Total items excluded from adjusted measure	(15.5)	3.0	(20.9)	2.7
Adjusted measure	34.8	(6.2)	27.5	(4.3)

6 Adjusting items continued

Restructuring and other £7.8 million (2020: £14.5 million)

Restructuring costs charged in the period primarily relate to cost of the Group's self help programme which began in 2020 and it is expected to conclude in 2022. To date the total income statement expense of the self help programme has been £21.0 million and with the total cost estimated to be £23.4 million.

Within the costs above there was £5.9 million of costs relating to the restructure of the US resistors business, £1.5 million relating to the closure of our facility in Lutterworth, UK, £1.1 million relating to the restructure of the US Power North America business, £0.9m relating to the closure of our facility in Tunis, Tunisia and £0.4 million of other costs.

Gains on property disposals of £1.7 million (2020: £1.2 million Lutterworth site, UK) relates to the sale of property in Covina, USA (£1.3 million), Corpus Christi, USA (£0.6 million) and Olathe, USA (£0.2 million loss).

A £1.8 million gain was realised on a 'Pensions Increase Exchange' exercise whereby eligible current pension members were offered the option to exchange their non statutory pension increases for an additional amount of level pension. Pension costs of £1.5 million relate to data cleanse work as we work towards a buyout of the scheme.

2020's restructuring and other costs amounted to £14.5 million, primarily related to restructuring of the Group's footprint, gain from property disposals and costs relating to the pension past service charge as a result of UK pensions schemes having to equalise male and female members' benefits in respect of guaranteed minimum pensions.

Acquisition and disposal related costs £7.7 million (2020: £6.4 million)

Acquisition and disposal related costs charged in the period relate to amortisation of acquired intangible assets (£5.1 million), integration costs of Torotel, Inc. (£1.5 million, Torotel was acquired in 2020), acquisition costs of Ferranti Power and Control (£0.5 million), integration costs of Covina (£0.2 million) and other acquisitions and disposal costs primarily relating to terminated deals (£0.4 million). A £1.3 million credit has been recognised in the period on tax losses arising in relation to the disposal of the transportation division due to the statute of limitations being reached.

2020's acquisition related costs amounted to £6.4 million and primarily related to amortisation of acquired intangible assets (£4.2 million), acquisition and integration costs of Covina (£1.3 million), acquisition and integration costs of Torotel, inc. (£1.3 million) a credit related to settlement against a warranty claim provision on the disposal of the transportation division in 2017, (£1.0m), and other costs (£0.6m).

7 Taxation

a) Analysis of the tax charge for the year

£million	2021	2020
Current tax		
Current income tax charge	5.1	5.1
Adjustments in respect of current income tax of previous year	(0.9)	(3.4)
Total current tax charge	4.2	1.7
Deferred tax		
Relating to origination and reversal of temporary differences	(0.4)	(0.5)
Change in tax rate	0.8	(0.4)
Recognition of previously unrecognised deferred tax assets	(1.4)	0.8
Total deferred tax credit	(1.0)	(0.1)
Total tax charge in the income statement	3.2	1.6

The applicable tax rate for the period is based on the UK standard rate of corporation tax of 19% (2020: 19%). Overseas taxation is calculated at the rates prevailing in the respective jurisdictions. The Group's effective tax rate for the year was 20.0% (the adjusted tax rate was 19.6%, see section 'Reconciliation of KPIs and non IFRS measures').

The enacted UK tax rate applicable since 1 April 2017 to current year profits is 19%. An increase in UK rate has been enacted to occur from 1 April 2023 to 25%. The impact on deferred tax as a result of this change was £5.9 million.

Included within the total tax charge above is a £3.0 million credit relating to items reported outside adjusted profit (2020: £2.7 million).

b) Reconciliation of the total tax charge for the year

£million	2021	2020
Profit before tax from continuing operations	16.0	2.9
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	3.0	0.6
Effects of:		
Impact on deferred tax arising from changes in tax rates	0.8	(0.4)
Overseas tax rate differences	0.7	1.4
Items not deductible for tax purposes or income not taxable	2.2	2.6
Adjustment to current tax in respect of prior periods	(0.9)	(3.4)
Current year tax losses and other items not recognised	(1.2)	0.1
Adjustment to value of deferred tax assets	(1.4)	0.7
Total tax charge reported in the income statement	3.2	1.6

The adjustment to current tax in respect of prior periods largely relates to the release of tax provisions in respect of concluded disputes and uncertainties.

7 Taxation continued

The overall aim of the Group's tax strategy is to support business operations by ensuring a sustainable tax rate, mitigating tax risks in a timely and cost-efficient way and complying with tax legislation in the jurisdictions in which the Group operates. It is however inevitable that the Group will be subject to routine tax audits or is in ongoing disputes with tax authorities in the multiple jurisdictions it operates within. This is much more likely to arise in situations involving more than one tax jurisdiction. Differences in interpretation of legislation, of global standards (e.g. OECD guidance) and of commercial transactions undertaken by the group between different tax authorities are one of the main causes of tax exposures and tax risks for the group.

In order to manage the risk to the Group an assessment is made of such tax exposures and provisions are created using the best estimate of the most likely amount to be incurred within a range of possible outcomes. The resolution of the Group's tax exposures can take a considerable period of time to conclude and, in some circumstances, it can be difficult to predict the final outcome.

The current tax liability at 31 December 2021 includes tax provisions of £6.9 million (2020: £6.4 million). The Group believes the range of reasonable possible outcomes in respect of these exposures is tax liabilities of up to £9.0 million (2020: £8.2 million).

c) Deferred tax

The amounts of deferred taxation assets/(liabilities) provided in the financial statements are as follows:

A deferred tax asset of £6.7 million has been recognised in respect of territories where the group has made net tax losses in the current year. The net tax losses have been driven by one-off costs excluded from adjusted measures which the Group does not expect to recur in future periods. The Group completed a five year forward looking strategic plan covering the periods from 2022 to 2026 in which it was forecast that all divisions would show increasing profitability. Therefore, a deferred tax asset is recognised on the basis that it is considered probable that net taxable profits will be recognised in these territories in future.

£million	As at 1 Jan 2021	Continuing operations	Recognised on acquisition	Recognised in equity/ OCI	Net exchange translation	As at 31 December 2021
Intangible assets	(10.6)	(0.8)	-	-	-	(11.4)
Property, plant and equipment	1.7	(0.2)	-	-	-	1.5
Deferred development costs	(0.5)	-	-	-	-	(0.5)
Retirement benefit obligations	(5.7)	(1.8)	-	(11.4)	-	(18.9)
Inventories	1.0	0.1	-	-	-	1.1
Tax losses	7.5	1.9	(0.2)	-	0.1	9.3
Unremitted overseas earnings	(2.0)	(0.3)	-	-	-	(2.3)
Share-based payments	0.7	0.7	-	0.5	-	1.9
Cash flow hedges	-	-	-	0.5	-	0.5
Short-term temporary differences	8.4	1.3	(0.1)	-	0.3	9.9
Net deferred tax asset/(liability)	0.5	0.9	(0.3)	(10.4)	0.4	(8.9)
Deferred tax assets	8.9					11.3
Deferred tax liabilities	(8.6)					(20.2)
Net deferred tax asset/(liability)	0.5					(8.9)

7 Taxation continued

Deferred tax	Description
Intangible assets	Deferred tax relating to intangible assets created on acquisitions by the Group. This excludes any internally generated intangibles relating to product development costs.
Property, plant and equipment	Deferred tax relating to temporary differences in the value of property, plant and equipment between Group accounting and local accounting and/or tax returns
Deferred development costs	Deferred tax relating to deferred development costs
Retirement benefit obligations	Deferred tax relating to retirement benefit obligations
Inventories	Deferred tax relating to temporary differences between the local book value and Group consolidated value of inventory
Tax losses	Deferred tax relating to recognised tax losses carried forwards for offset against future profits of the Group
Unremitted overseas earnings	Deferred tax relating to the repatriation of subsidiary profits to the Group's ultimate holding company
Share based payments	Deferred tax relating to share based payment
Short term temporary differences	Deferred tax relating to temporary differences between Group accounts and local accounts or tax return arising where a tax deduction is received on payment of an amount either between Group companies or to external unconnected third parties rather than on an accounting basis. This includes product development costs.

£million	At 31 December 2019	Continuing operations	Recognised on acquisition	Recognised in equity/ OCI	Net exchange translation	As at 31 December 2020
Intangible assets	(9.0)	0.2	(2.2)	-	0.2	(10.8)
Property, plant and equipment	1.9	(0.2)	(0.1)	-	0.1	1.7
Deferred development costs	(1.0)	0.4	-	-	0.1	(0.5)
Retirement benefit obligations	(2.5)	(1.1)	-	(2.1)	-	(5.7)
Inventories	1.5	(0.5)	-	-	-	1.0
Tax losses	3.6	3.9	0.3	-	(0.3)	7.5
Unremitted overseas earnings	(1.7)	(0.4)	-	-	0.1	(2.0)
Share-based payments	1.3	(0.3)	-	(0.3)	-	0.7
Short-term temporary differences	9.4	(2.1)	1.2	-	(0.1)	8.4
Net deferred tax asset	3.5	(0.1)	(0.8)	(2.4)	0.1	0.3
Deferred tax assets	8.1					8.9
Deferred tax liabilities	(4.6)					(8.6)
Net deferred tax asset	3.5					0.5

At 31 December 2021, the gross amount and expiry date of losses available for carry forward are as follows:

£million	Expiring within 5 years	Expiring within 6-10 years	Unlimited	Total
Losses for which no deferred tax asset has been recognised	0.4	-	71.1	71.5

Tax losses of £58.2 million are subject to substantial limitations in the type of profits they can be offset against and no such capital disposals are currently anticipated.

7 Taxation continued

At 31 December 2020, the gross amount and expiry date of losses available for carry forward were as follows:

£million	Expiring within 5 years	Expiring within 6-10 years	Unlimited	Total
Losses for which no deferred tax asset has been recognised	0.7	-	77.0	77.7

At 31 December 2021, the Group had no other items for which no deferred tax assets have been recognised (2020: £nil).

8 Dividends

	2021 pence per share	2021 £million	2020 pence per share	2020 £million
Final dividend paid for prior year	4.70	8.2	-	-
Interim dividend declared for current year	1.80	3.2	-	-

The Directors recommend a final dividend of 3.8 pence per share. The Group has a progressive dividend policy. The final dividend will be paid on 20 May 2022 to shareholders on the register on 29 April 2022.

9 Earnings per share

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

Pence	2021	2020
Earnings per share		
Basic	7.3	0.8
Diluted	7.2	0.8

The numbers used in calculating adjusted, basic and diluted earnings per share are shown below. Adjusted earnings per share is based on the adjusted profit after interest and tax.

Adjusted earnings per share:

£million (unless otherwise stated)	2021	2020
Group		
Profit for the year attributable to owners of the Company	12.8	1.3
Restructuring and other	7.8	14.5
Acquisition and disposal related costs	7.7	6.4
Tax effect of above items (see note 6)	(3.0)	(2.7)
Adjusted earnings	25.3	19.5
Adjusted earnings per share (pence)	14.5	11.7
Adjusted diluted earnings per share (pence)	14.2	11.6

The weighted average number of shares in issue is as follows (new shares issued in the year described in Note 24):

million	2021	2020
Basic	174.8	166.5
Adjustment for share awards	3.3	1.6
Diluted	178.1	168.1

10 Reconciliation of net cash flow to movement in net debt

Net cash of £67.2 million (2020: £69.0 million) comprises cash at bank and in hand of £68.3 million (2020: £70.2 million) and overdrafts of £1.1 million (2020: £1.2 million).

£million	Net cash	Lease liabilities	Borrowings	Net debt
At 1 January 2020	60.2	(17.6)	(111.7)	(69.1)
Cash flow	9.7	-	-	9.7
Businesses acquired		(2.0)	(3.0)	(5.0)
Repayment of borrowings	-	-	27.2	27.2
Proceeds from borrowings	-	-	(49.8)	(49.8)
Payment of lease liabilities	-	4.1	-	4.1
Reassessment of lease liabilities	-	(0.1)	-	(0.1)
New leases	-	(0.5)	-	(0.5)
Amortisation of loan arrangement fees	-	-	(0.4)	(0.4)
Exchange differences	(0.9)	0.2	0.7	-
At 31 December 2020	69.0	(15.9)	(137.0)	(83.9)
Cash flow	(2.8)	-	-	(2.8)
Repayment of borrowings	-	-	86.9	86.9
Proceeds from borrowings	-	-	(96.4)	(96.4)
Payment of lease liabilities	-	3.9	-	3.9
New leases	-	(10.8)	-	(10.8)
Net movement in loan arrangement fees	-	-	0.2	0.2
Exchange differences	1.0	0.2	(0.8)	0.4
At 31 December 2021	67.2	(22.6)	(147.1)	(102.5)

11 Retirement benefit schemes

Defined contribution schemes

The Group operates 401(k) plans in North America and defined contribution arrangements in the rest of the world. The assets of these schemes are held independently of the Group. The total contributions charged by the Group in respect of defined contribution schemes were £3.0 million (2020: £3.2 million).

Defined benefit schemes

At 31 December 2021 the Group operated two defined benefit schemes in the UK (the TT Group (1993) Pension Scheme and the Southern & Redfern Ltd Retirement Benefits Schemes) and overseas defined benefit schemes in the USA. These schemes are closed to new members and the UK schemes are closed to future accrual.

The TT Group scheme commenced in 1993 and increased in size in 2006, 2007 and 2019 through the mergers of former UK schemes following a number of acquisitions. The parent company is the sponsoring employer in the TT Group scheme. The TT Group scheme is governed by TTG Pension Trustees Limited (the "Trustee") that has control over the operation, funding and investment strategy in consultation with the Group.

The triennial valuation of the TT Group scheme as at April 2019 showed a net surplus of £0.3 million against the Trustee's statutory funding objective. As the scheme was fully funded at the 2019 triennial valuation date, there is no requirement for the Company to pay pension contributions. In addition to the statutory funding objective, the Trustee and Company 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 agreed to pay additional fixed contributions of £5.7 million and £4.4 million in the years 2022 and 2023 respectively. The next triennial valuation of the TT Group scheme is due as at 5 April 2022.

11 Retirement benefit schemes continued

The Trustee and Company agreed that the Trustee should undertake an exercise during 2021, whereby eligible current pensioner members were offered an option to exchange their non-statutory pension increase benefits for an additional amount of level pension. In the year ended 31 December 2021, a £1.8 million credit was recognised as a result of this exercise.

An actuarial valuation of the USA defined benefit schemes was carried out by independent qualified actuaries in 2021 using the projected unit credit method. Pension scheme assets are stated at their market value at 31 December 2021.

An analysis of the pension surplus/(deficit) by scheme is shown below:

£million	2021	2020
TT Group (1993)	78.4	35.4
Southern & Redfern	-	-
USA schemes	(3.9)	(4.9)
Net surplus	74.5	30.5

Amounts recognised in the consolidated income statement are:

£million	2021	2020
Scheme administration costs	(1.7)	(1.7)
Net gain on pension projects (excluded from adjusted operating profit)	0.3	-
Net interest credit	0.9	0.4

Amounts recognised in the consolidated statement of comprehensive income are a gain of £35.8 million (2020: gain of £8.6 million) which comprises of; the actual return on scheme assets, a gain of £11.3 million (2020: gain of £70.9 million) and the remeasurement of the schemes obligations, an decrease of £24.5 million (increase of £62.3 million).

12 Share capital

£million	2021	2020
Issued and fully paid		
176,244,624 (2020: 174,580,743) ordinary shares of 25p each	44.1	43.6

During the period the Company issued 653,834 ordinary shares as a result of share options being exercised under the Sharesave scheme and Share Purchase plans.

The performance conditions of the Long-term Incentive Plan awards issued in 2018 and Restricted Share Plan awards issued in 2019, 2020 and 2021 were met and shares were allocated to award holders from existing shares held by an Employee Benefit Trust for £nil consideration. 191,651 new shares were issued at par value of 25 pence to settle the vesting of part of the 2018 scheme. 818,396 new issue shares were issued at par value of 25 pence in anticipation of vesting of the 2019 scheme in 2022.

The aggregate consideration received for all share issues during the year was £1.4 million, which was represented by a £0.5 million increase in share capital and a £0.9 million increase in share premium.

On the 22 September 2020 the Group issued 10,000,000 ordinary shares to fund the acquisition of Torotel. The consideration received was £19.5 million (after fees of £0.5 million which were recorded within share premium) which was represented by a £2.5 million increase in share capital and a £17.0 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 in 2021 or 2020 that have affected the financial position or performance of the Group.

14 Subsequent events

On 7 January 2022 the Group acquired the Power and Control business of Ferranti Technologies Ltd, from Elbit System UK Ltd. Cash consideration of £9.0 million and an initial adjustment of £1.0 was paid in January 2022 and the acquisition is subject to further adjustments dependant on the level of working capital.

Ferranti Power and Control, based in Oldham, Greater Manchester, designs and manufactures mission-critical complex power and control sub-assemblies for blue chip customers in high-reliability and high-performance end markets, primarily aerospace and defence. The acquisition brings highly skilled employees who provide full-service capabilities from design, assembly, manufacturing, and testing including environmental stress screening and inspection through to service. Ferranti Power and Control adds further technology capability, IP and scale to our Power business with valuable long-term customer relationships and programmes with leading global aerospace, defence and industrial OEMs operating in highly regulated markets with significant barriers to entry through necessary industry accreditations and customer approvals.

The provisional fair values of the identifiable assets and liabilities include goodwill (representing the Group's view of the future earning's growth potential) and intangible assets of £8 million, inventory of £3 million, accounts receivable of £2 million and accounts payable of £3 million.

Given the limited time between the acquisition and the signing of these accounts, the fair valuation of acquired assets and liabilities is incomplete at the date of these financial statements.

Principal risks and uncertainties

The Group continues to be exposed to operational and financial risks and has an established, structured approach to identifying, assessing, and managing those risks. These risks relate to the following areas: general revenue reduction; contractual risks; research and development; people and capability; supplier resilience; IT systems and information; M&A and integration; sustainability, climate change and the environment; health and safety; and legal and regulatory compliance.

Reconciliation of KPIs and non IFRS measures

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 financial statements APMs including adjusted operating profit and adjusted 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 adjusted measures to assess the operating performance of the Group, having adjusted for specific items as detailed in note 6. 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 adjusted measures in segmental reporting, this enables readers of the financial statements to recognise how incentive performance is targeted. Adjusted measures are also presented in this announcement because the Directors believe they provide additional useful information to shareholders on comparable 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.

Income statement measures:

Alternative Performance Measure	Closest equivalent statutory measure	Note reference to reconciliation to statutory measure	Definition and purpose
Adjusted 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 are also excluded. To provide a measure of the operating profits excluding the impacts of significant items such as restructuring or acquisition related activity and other items such as amortisation of intangibles which may not be present in peer companies which have grown organically.
Adjusted operating margin	Operating profit margin	Adjusting items as disclosed in note 6	Adjusted operating profit as a percentage of revenue. To provide a measure of the operating profits excluding the impacts of significant items such as restructuring or acquisition related activity and other items such as amortisation of intangibles which may not be present in peer companies which have grown organically.
Adjusted earnings per share	Earnings per share	See note 9 for the reconciliation and calculation of adjusted earnings per share	The profit for the year attributable to the owners of the Group adjusted to exclude the items not included within adjusted operating profit divided by the weighted average number of shares in issue during the year. To provide a measure of Earnings per Share excluding the impacts of significant items such as restructuring or acquisition related activity and other items such as amortisation of intangibles which may not be present in peer companies which have grown organically.

Income statement measures continued**:**

Alternative Performance Measure	Closest equivalent statutory measure	Note reference to reconciliation to statutory measure	Definition and purpose
Adjusted diluted earnings per share	Diluted earnings per share	See note 9 for the reconciliation and calculation of adjusted diluted earnings per share	The profit for the year attributable to the owners of the Group adjusted to exclude the items not included within adjusted operating profit divided by the weighted average number of shares in issue during the year, adjusted for the effects of any potentially dilutive options. To provide a measure of Earnings per Share excluding the impacts of significant items such as restructuring or acquisition related activity and other items such as amortisation of intangibles which may not be present in peer companies which have grown organically.
Organic revenue	Revenue	See note APM 1	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, acquisitions and disposals. This measures the underlying growth or decline of the business. To provide a comparable view of the revenue growth of the business from period to period excluding acquisition and foreign currency impacts.
Adjusted effective tax charge	Effective tax charge	See note APM 2	Tax charge adjusted to exclude tax on items not included within adjusted operating profit divided by adjusted profit before tax, which is also adjusted to exclude the items not included within adjusted operating profit. To provide a tax rate which excludes the impact of adjusting items such as restructuring or acquisition related activity and other items such as amortisation of intangibles which may not be present in peer companies which have grown organically.
Return on invested capital	None	See note APM 3	Adjusted 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

Statement of financial position measures:

Alternative Performance Measure	Closest equivalent statutory measure	Note reference to reconciliation to statutory measure	Definition and purpose
Net debt	Cash and cash equivalents less borrowings and lease liabilities	Reconciliation of net cash flow to movement in net debt (note 10)	Net debt comprises cash and cash equivalents and borrowings including lease liabilities. This is additional information provided which may be helpful to the user in understanding the liquidity and financial structure of the business.
Leverage (bank covenant)	Cash and cash equivalents less borrowings	N/A	Leverage is the net debt defined as per the banking covenants (net debt (excluding lease liabilities) adjusted for certain terms as per the bank covenants) divided by EBITDA excluding items removed from adjusted profit and further adjusted for certain terms as per the bank covenants. Provides additional information over the Group's financial covenants to assist with assessing solvency and liquidity.
Net capital and development expenditure (net capex)	None	See note APM 4	Purchase of property, plant and equipment net of government grants (excluding property disposals), purchase of intangibles (excluding acquisition intangibles) and capitalised development. A measure of the Group's investments in capex and development to support longer term growth.
Dividend per share	Dividend per share	Not applicable	Amounts payable by dividend in terms of pence per share. Provides the dividend return per share to shareholders.

Statement of cash flows measures:

Alternative Performance Measure	Closest equivalent statutory measure	Note reference to reconciliation to statutory measure	Definition and purpose
Adjusted operating cash flow	Operating cash flow	See note APM 5	Adjusted operating profit, excluding depreciation of property, plant and equipment (depreciation of right-of-use assets is not excluded) and amortisation of intangible assets, less working capital and other non-cash movements. An additional measure to help understand the Group's operating cash generation.
Adjusted operating cash flow post capex	Operating cash flow	See note APM 6	Adjusted operating cash flow less net capital and development expenditure. An additional measure to help understand the Group's operating cash generation after the deduction of capex.
Working capital cashflow	Cashflow - inventories payables, provisions and receivables	See note APM 7	Working capital comprises of three statutory cashflow figures: (increase)/decrease in inventories, increase/(decrease) in payables and provisions, and (increase)/decrease in receivables. To provide users a measure of how effectively the group is managing its working capital and the resultant impact on liquidity.
Free cash flow	Net increase/ decrease in cash and cash equivalents	See note APM 8	Free cash flow represents cash generated from trading after all costs including restructuring, pension contributions, tax and interest payments. Cashflows to settle LTIP schemes are excluded. Free cash flow provides a measure of how successful the company is in creating cash during the period which is then able to be used by the Group at its discretion.
Cash conversion	None	See note APM 9	Adjusted operating cash flow post capex (less any property disposals which were part of restructuring programmes) divided by adjusted operating profit Cash conversion measures how effectively we convert profit into cash and tracks the management of our working capital and capital expenditure.
R&D cash spend as a percentage of revenue	None	See note APM 10	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. To provide a measure of the company's expenditure on R&D relative to its overall size which may be helpful in considering the Group's longer term investment in future product pipeline.

Non-financial measures:

Alternative Performance Measure	Closest equivalent statutory measure	Note reference to reconciliation to statutory measure	Definition
Employee engagement	Not applicable	Not applicable	We use our employee survey to measure how our employees feel about working in TT using a scale of 1 (low) to 7 (high) against eight factors (as surveyed by Best Companies Ltd). A company is awarded between zero and three stars based on the employee feedback. Provides a measure of employee sentiment and engagement.
Safety performance	Not applicable	Not applicable	Safety performance is defined as the number of occupational injuries resulting in three or more days' absence per 1,000 employees. This KPI allows us to compare our performance with that of our peers. We use a UK benchmark published by the Health and Safety Executive and apply this to all our facilities worldwide, reflecting our commitment to raising standards globally. Provides users additional information about the Group's commitment and achievements in the area of health and safety.

APM 1 - Organic revenue:

£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	**Total**	**Total**
2021 revenue	140.2	220.1	115.9	476.2	476.2
Acquisitions	15.2	-	-	15.2	15.2
2021 revenue (excluding acquisitions)	125.0	220.1	115.9	461.0	461.0
2020 revenue	125.1	197.5	109.2	431.8	431.8
Foreign exchange impact	(3.4)	(4.1)	(5.2)	(12.7)	(12.7)
2020 revenue at 2021 exchange rates	121.7	193.4	104.0	419.1	419.1
Organic revenue increase (%)	3%	14%	11%	10%	10%

£million	Power and Connectivity	Global Manufacturing Solutions	Sensors and Specialist Components	Total Operating Segments	Total
2020 revenue	125.1	197.5	109.2	431.8	431.8
Acquisitions	11.1	-	-	11.1	11.1
2020 revenue (excluding acquisitions)	114.0	197.5	109.2	420.7	420.7
2019 revenue	138.2	213.2	126.8	478.2	478.2
Foreign exchange impact	(0.1)	(1.1)	(0.2)	(1.4)	(1.4)
2019 revenue at 2020 exchange rates	138.1	212.1	126.6	476.8	476.8
Organic revenue decline (%)	(18%)	(7%)	(14%)	(12%)	(12%)

APM 2 – Effective tax charge:

£million	2021	2020
Adjusted operating profit	**34.8**	27.5
Net interest	**(3.3)**	(3.7)
Adjusted profit before tax	**31.5**	23.8
Adjusted tax	**(6.2)**	(4.3)
Adjusted effective tax rate	**19.6%**	18.1%

APM 3 – Return on invested capital:

£million	2021	2020
Adjusted operating profit	**34.8**	27.5
Average invested capital	**382.4**	357.3
Return on invested capital	**9.1%**	7.7%

APM 4 - Net capital and development expenditure (net capex):

£million	2021	2020
Purchase of property, plant and equipment	**(14.6)**	(9.3)
Proceeds from sale of investment property, plant and equipment and capital grants received	**9.3**	3.4
Capitalised development expenditure	**(1.9)**	(3.3)
Purchase of other intangibles	**(0.5)**	(0.8)
Net capital and development expenditure	**(7.7)**	(10.0)

APM 5 - Adjusted operating cash flow:

£million	2021	2020
Adjusted operating profit	**34.8**	27.5
Adjustments for:		
Depreciation	**13.6**	14.0
Amortisation of intangible assets	**2.5**	3.0
Impairment of property, plant and equipment and intangible assets	**-**	0.2
Other items	**1.1**	0.7
(Increase)/decrease in inventories	**(42.6)**	4.2
(Increase)/decrease in receivables	**(15.7)**	11.2
Increase/(decrease) in payables and provisions	**42.0**	(11.8)
Adjusted operating cash flow	**39.5**	49.0
Special payments to pension funds	**(5.5)**	(5.4)
Restructuring and acquisition related costs	**(15.0)**	(15.1)
Net cash generated from operations	**19.0**	28.5
Net income taxes paid	**(4.7)**	(0.3)
Net cash flow from operating activities	**14.3**	28.2

APM 6 - Adjusted operating cash flow post capex:

£million	2021	2020
Adjusted operating cash flow	39.5	49.0
Purchase of property, plant and equipment	(14.6)	(9.3)
Proceeds from sale of property, plant and equipment and government grants received	9.3	3.4
Capitalised development expenditure	(1.9)	(3.3)
Purchase of other intangibles	(0.5)	(0.8)
Adjusted operating cash flow post capex	31.8	39.0

APM 7 – Working capital cashflow:

£million	2021	2020
(Increase)/decrease in inventories	(42.6)	4.2
(Increase)/decrease in receivables	(15.7)	11.2
Increase/(decrease) in payables and provisions	42.0	(11.8)
Items reported within other items in the statutory cashflow:		
Increase in provisions over trade receivables	1.6	-
Working capital cashflow	(14.7)	3.6

APM 8 – Free cash flow:

£million	2021	2020
Net cash flow from operating activities	14.3	28.2
Add back: Bonus paid to employees of Torotel which crystallised upon acquisition	-	3.8
Net cash flow from investing activities	(8.2)	(51.9)
Add back: Acquisition of business	0.5	43.3
Add back: Cash with acquired businesses	-	(1.4)
Payment of lease liabilities	(3.9)	(4.1)
Interest paid	(4.0)	(3.5)
Free cash flow	(1.3)	14.4

APM 9 – Cash conversion:

£million	2021	2020
Adjusted operating profit	34.8	27.5
Adjusted operating cash flow post capex	31.8	39.0
Exclude: Property disposal proceeds as part of restructuring programmes	(9.1)	(3.2)
Adjusted operating cash flow post capex and excluding property disposals	22.7	35.8
Cash conversion	65%	130%

APM 10 - R&D cash spend as a percentage of revenue:

£million	2021	2020
Revenue (excluding GMS)	**256.1**	234.3
R&D cash spend	**11.4**	11.2
R&D cash spend as a percentage of revenue	**4.5%**	4.8%