

TT electronics plc Annual Report 2005

Tomorrow's technology



TT electronics is a world leader in sensor and electronic component technology.

Our aim is to optimise our operations as a global leader in the application of leading edge technology in our field for our customers worldwide.

Contents

1	Highlights and financial summary
2	Chairman's statement
4	Group operations
6	Innovative new products
10	Optimising our operations
14	Business review
20	Directors and Company Secretary
21	Directors' report
24	Directors' report on corporate governance
28	Directors' remuneration report
33	Report of the Independent Auditors on the consolidated financial statements
34	Consolidated income statement
35	Consolidated balance sheet
36	Consolidated statement of recognised income and expense
37	Consolidated cash flow statement
38	Accounting policies for the consolidated financial statements
41	Notes to the consolidated financial statements
61	Company balance sheet
62	Accounting policies for the Company financial statements
63	Notes to the Company financial statements
69	Report of the Independent Auditors on the Company financial statements
70	Notice of meeting
72	Historical record
ibc	Shareholder information

Highlights 2005

- Elimination of loss making operations and moves of production to low labour cost countries
- New Autopad® sensors being developed with new orders won worth over £100 million
- Chinese acquisition performing well ahead of expectations
- Group net indebtedness down from £67.3 million to £47.1 million
- Dividend for the year maintained at 10.05p per share

Financial summary

	2005 £million	2004 £million
Revenue	565.3	573.1
Operating profit before exceptional gain	29.9	34.7
Profit before taxation	26.8	30.0
Profit on ordinary activities after taxation from continuing activities	18.3	20.1
Earnings per share, basic from continuing activities	11.8p	13.0p
Ordinary dividends per share	10.05p	10.05p

Further acquisitions together with new technology will enable TT electronics to grow.

The year has been one of consolidation resulting in the group closing four factories based in the UK and Europe. The group has continued its policy of transferring production to its low labour cost factories particularly in China and Malaysia. Dage Limited and its subsidiaries, now trading as TT electronic integrated systems were acquired in March 2005 and are performing well ahead of expectations. As a result, we now have a facility in China where we will be manufacturing group products for the Chinese and worldwide markets.

Revenue for the year to December 2005 was £565.3 million compared to £573.1 million in 2004. Operating profit before exceptional gain was £29.9 million (2004: £34.7 million). Exceptional gain was £2.1 million (2004: £nil) resulting in operating profit for the year of £32.0 million (2004: £34.7 million). Finance costs (net) were £5.2 million (2004: £4.7 million), comprising £3.1 million of bank and finance lease interest and £2.1 million relating to pension fund accounting. Profit before tax was £26.8 million compared with £30.0 million in 2004. Taxation charge in the year was £8.5 million (2004: £9.9 million) at an effective rate of 32 per cent (2004: 33 per cent).

The electronic sector will benefit from the demand for Autopad® sensors. We have taken orders in excess of £100 million which include new applications for our sensors.

The electrical sector is benefiting from the demand for standard diesel generating sets manufactured in Mexico, in particular a £10 million order awarded by a new customer in Central America.

The exceptional items comprise the net gain on the sale of the Gravesend property after related closure costs, the profit on sale of Houchin Aerospace, and the costs of closure of the climate control business based in France. The Gravesend property was sold in March 2005 for an initial payment of £12.5 million, with expected further payments to be received on the disposal of the site following planning consent and onward sale. The power cable division on that site has been closed at a cost of £3.1 million. The French climate control business has been closed at a cost of £6.7 million due to unacceptable low margins. These low margins arose from production inefficiencies on inherited loss making contracts and new business which could only be achieved at unacceptable margins due to competition from lower labour cost areas.



The discontinued operation is the cessation of manufacturing at Prestwick Circuits Limited, our printed circuit board manufacturer. Competition from Far East suppliers at significantly lower selling prices has caused the closure of this business after a number of years of losses.

The group's pension schemes showed an increased deficit, despite the rise in the stock market and additional cash contributions made by the group in the year, due to the effect of exceptionally low long-term interest yields and longer life expectancy. Since the year end the Company has entered into a formal commitment to fund over a ten year period part of this deficit.

TT electronics continues to be a strong generator of cash. At the year end, the group's net indebtedness had reduced to £47.1 million from £67.3 million at the end of last year. We have successfully renegotiated our five year bank loan facility which was due to expire in June 2006 for a new £70 million five year bank loan facility commencing November 2005.

The Board of TT electronics recommends a final dividend of 6.36p per share which, following the 3.69p interim dividend, provides a total dividend for the year of 10.05p, the same as last year.

TT electronics' employees contribute enormously to the group's performance and I would like to thank them for all their efforts throughout the year.

The successful future of TT electronics is based on product innovation and the continuing move of manufacturing to low labour cost countries. TT electronic integrated systems in China will assist in this strategy. With reduced borrowings, the group is in good shape to make further acquisitions which, together with our new technology, will enable TT electronics to grow in the future.



John W Newman
Executive Chairman
27 March 2006

Group operations

Revenue

Electronic sector

TT electronics is a global supplier of a wide range of custom products to the automotive and electronics market worldwide.

A global sales structure enables TT electronics to provide competitive and rapid response to customer demands. The use of specialist application engineering skills to design-in solutions for customer specific requirements is a core skill of the TT electronics team.

Sensors and electronic systems

TT electronics specialises in the manufacture of sensors and electronic systems for major automotive and other customers across the world.

Our sensor operations utilise both contact and non-contact technologies and visible and infra red optoelectronics to provide competitive, reliable solutions to exacting customer standards. Electronic systems encompass our climate control units providing control to vehicle heating and air conditioning systems.

£195.0m

Electronic components

TT electronics provides both active and passive component and microcircuit module solutions for our worldwide customer base. Manufactured in appropriately located factories supported by a network of sales offices, our products are designed into a range of customer specific applications. Our technical skills have been developed over many years to provide high quality, innovative solutions in today's demanding environment.

£129.6m

Electronic manufacturing services

TT electronics is an electronic manufacturing services provider to UK, continental European, North American and Chinese customers. Manufacturing is based in the UK and supported by low labour cost facilities in Malaysia and China. We also provide a specialised manufacturing support and logistics service to our customers.

Our factories operate as our customers' manufacturing units providing a flexible facility suitable for both high and low volume production runs.

£60.3m

Electrical sector

TT electronics maintains a leading position as a supplier of electrical products to customers across the world.

In a traditional market, customers expect quality and service from established brand names. TT electronics provides a reliable and dependable source for customers from a number of specialist manufacturing units in the UK and low labour cost regions of the world.

Power systems

TT electronics provides power systems and solutions in the form of diesel and gas powered generators and uninterruptible power supply units. Manufacturing and servicing facilities are based in the UK and Mexico, for customers responsible for major power projects worldwide.

£50.4m

Power transmission

TT electronics provides a range of electrical products for power transmission applications within traditional markets in the UK, Middle East, Africa and the Far East.

We have recently expanded our connector business into European and North American markets, adding value by providing complex connector systems.

£130.0m

Notes

Companies are located and incorporated in the United Kingdom except where indicated. Addresses and telephone numbers are shown on the TT electronics plc website: www.ttelectronics.com. Only those subsidiaries whose results principally affected these financial statements are shown above.

Operations	Products	Applications	Major customers	Principal operating subsidiaries
Brazil Germany Mexico Ukraine United Kingdom USA	ABS sensors Body control electronics Chassis position sensors Climate control systems Electronic throttle control sensors Engine management sensors Fibre optic components LED discretes and assemblies Mass airflow sensors Pressure sensors and switches Steering and torque sensors	Automotive Consumer Heavy duty vehicles Industrial	BMW DaimlerChrysler Delphi Ford General Motors MAN Renault Scania Valeo VW/Audi	AB Automotive Electronics Limited AB Automotive Inc, USA AB Electronic Limited AB Elektronik GmbH, Germany AB Elektronik Sachsen GmbH, Germany Optek Technology Inc, USA, Mexico
Austria Barbados France Germany India Italy Japan Malaysia Mexico Singapore United Kingdom USA	Blower motor resistors Encoders Ferrite toroids and magnetics Headlight power hybrids Hybrids and microcircuits Inductors Magnets Potentiometers and trimmers Resistors and resistor networks Water pump control modules	Automotive Consumer Defence and aerospace Industrial Medical Telecom and computer	Arrow Electronics BMW DaimlerChrysler Delphi General Motors IBM Intel Siemens TTI Valeo VW/Audi	AB Mikroelektronik GmbH, Austria BI Technologies, USA, United Kingdom, Mexico, Malaysia International Resistive Company Inc, USA MMG India Private Limited, India Welwyn Components Limited
China Malaysia United Kingdom	Cable assemblies Full PCB assembly Full service logistics provider High speed technology backplanes Integrated system assembly	Automotive Consumer Defence Industrial Medical Telecom and computer	BAE Systems British Telecom Fuji Harris Lake Communications Motorola Ultra Electronics	BI Technologies, USA, United Kingdom, Mexico, Malaysia TT electronic manufacturing services Limited TT electronic integrated systems Limited TT electronic integrated systems (Suzhou) Co. Ltd, China
Mexico United Kingdom	Standby and continuous power generation Uninterruptible power supplies	Banks Hospitals Public and commercial buildings Telecom base stations and general industrial Utilities	British Telecom Dalkia National Grid T-Mobile	Dale Power Solutions plc Erskine Systems Limited Ottomotores SA de CV, Mexico
South Africa United Kingdom	Electrical connectors and harnesses Insulation technology Power transmission accessories Power transmission cables	Building and civil construction Defence and commercial shipping Electrical support systems Mining and general industrial Power utilities Railways	BAE Systems Bombardier China Light and Power Crown Agents Edmundson London Underground National Railway Supplies Scottish and Southern Electricity Vosper	AB Connectors Limited AEI Cables Limited AEI Compounds Limited WST (PTY) Limited, South Africa WT Henley Limited

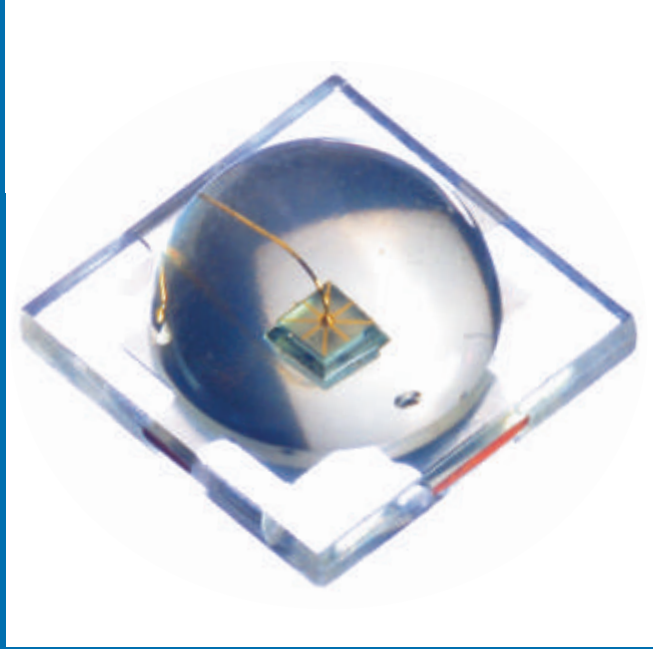
Innovative new products

TT electronics continually develops new products and concepts to increase global sales. Markets served span automotive, telecom and computer, office equipment, military and aerospace.

Every business unit within TT electronics works closely with their customers to identify products to serve the changing market needs.



Innovative new products



TT electronics' acquisition of Sensopad in March 2004 has given the group access to highly accurate, cost effective inductive sensor technology.

Supported by our research unit based in Cambridge, our world class automotive sensor manufacturing facility based in Germany has won over £100 million of new business over programme lives. The first volume Autopad® product, for control of air intake on the throttle body, as shown above, is due for launch late 2006.

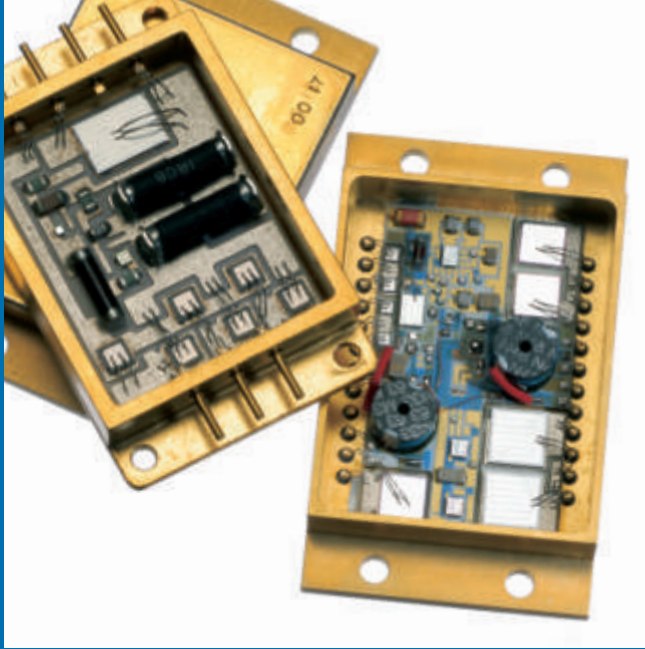
Wins include new chassis, accelerator pedal, electronic throttle control and steering sensors, primarily for the highly successful German automotive market. Particularly exciting is the development of inductive steering sensors for the control of electrically powered steering systems being fitted in increasing numbers to smaller vehicles. The Autopad® technology allows the precise measurement of steering torque and steering position, essential in providing the driver with control of the vehicle in all conditions.



Optek Technology, acquired in December 2003, has been a particularly successful acquisition.

The mainstream optoelectronic product range had concentrated upon older style leaded light emitting diode (LED) components. Recent additions to the product range are surface mount infra red LEDs, leaded and surface mount visible LEDs. These have given the company a wider portfolio of products to further expand global sales. Shown above is a surface mount visible LED component used in signage and medical diagnostics.

A full range of product has been tooled with Far Eastern die suppliers. As planned, business has been won using existing sales channels. TT electronics has initially targeted major distributors with whom it already has strong relationships and this product has been well received.



© Eurofighter GmbH

TT electronics' world class hybrid microcircuit manufacturing facility based in the UK has been chosen to supply a range of precision hybrid modules, such as the power supply module shown above, for the important European Fighter programme.

Working with customers in a variety of countries, TT electronics' engineers design hybrid modules for efficient and cost effective manufacture, using best in class design methodologies. Products, once designed, are manufactured in precision clean rooms to eliminate contamination and ensure 100 per cent reliability throughout the long working life of the product.



© BMW AG

TT electronics, using its world class manufacturing facility based in Austria, supplies a range of power hybrid products to the German automotive industry.

The above hybrid control module for a new generation of electric water pumps fitted to BMW six cylinder petrol engines was launched during 2005. The advantage of this technology is a reduced load on the engine leading to improved fuel economy.

A further new development is the control circuitry for solar sensors. When fitted to a vehicle's dashboard, the solar sensor detects the strength of the sun's radiation and transmits signals to the vehicle's climate control system to automatically adjust cabin temperature leading to improved driver comfort.



Optimising our operations

TT electronics continues to invest in automated production systems in our higher labour cost based factories to support local customer requirements.

Expansion during 2005 in Malaysia and China is in line with our stated policy of also growing our lower labour cost operations.

TT electronics now employs 38 per cent of its total global workforce in low cost manufacturing economies.



Optimising our operations



Germany

TT electronics' sensor manufacturing facility near Dortmund comprises manufacturing space of 23,000 square metres on two sites and the latest in automated production lines.

In high labour cost countries such as Germany, it is essential to limit the labour content. Production lines are designed in-house and built either by contractors or by the in-house teams benefiting from the experience gained over several years. Construction is modular in design, using standard products where possible.

New production lines are now being constructed to manufacture the range of Autopad® products commencing in late 2006. In the automotive world, investment is required many months in advance of programme start in order that samples supplied during the development process are manufactured on the actual production line that is going to be used, thereby ensuring consistency and reliability.

Germany

TT electronics' temperature and pressure sensor manufacturing facility near Dresden currently occupies manufacturing space of 6,000 square metres.

Due to the substantial volume of new business won, the facility is being extended in 2006 by the addition of a further 2,500 square metres. The operation has been successful in developing a precision high temperature sensor product range and has also won business for precision pressure sensor technology which continues to grow at a healthy rate. As vehicle manufacturers are now identifying opportunities to combine applications, TT electronics has developed combined pressure and temperature sensor technologies and won an initial development order from a major German car manufacturer for volume commencing in 2007.



China

TT electronics expanded into China with the purchase, in March 2005, of Dage Limited which included a facility in Suzhou, near Shanghai.

The operation has been expanded and now comprises three factories with a total manufacturing space of 10,000 square metres. Further expansion is planned during 2006.

Volume manufacturing is in the process of being transferred from TT electronics' facilities based in high labour cost areas to China. Current transfers planned are thick film hybrids, connector harnesses, resistors, domestic fuse gear, automotive components and a range of contract manufactured products.

With labour rates and overhead costs significantly lower than those of European and US-based operations, and with the excellent technical skills available locally, TT electronics plans to increase the rate of product transfers during 2006 and beyond.



Malaysia

TT electronics acquired this low cost component manufacturing facility in Malaysia in 2000, as part of the acquisition of BI Technologies.

Recent developments have centred upon the development of an electronic manufacturing services business unit within the facility to provide TT electronics' UK operations with a competent low cost offshore manufacturing capability.

Production commenced at low volume in late 2004 and in 2005 an order was negotiated for 100 per cent Malaysian manufacture of telephone products from a major Irish customer. Additional production lines have now been installed in the Malaysian facility and production is running at full volume.

Adding a business unit to an existing TT facility is a proven way of expanding the TT electronics business worldwide. Use of the current Malaysian infrastructure has enabled this product transfer to proceed smoothly and generate early recovery of costs.

A year of rationalisation and cash generation.

Summary

	2005 £million	2004 £million
Revenue	565.3	573.1
Operating profit ⁽¹⁾	29.9	34.7
Capital employed	197.7	232.6
Return on capital employed	15%	15%

⁽¹⁾ Operating profit is stated before exceptional gain of £2.1 million.

TT electronics operates in two main sectors, electronic and electrical. The electronic sector supplies sensors and systems, components and electronic manufacturing services to major customers in the automotive, aerospace and industrial markets worldwide. The electrical sector provides services and equipment for the generation and distribution of electrical power.

2005 was a year of rationalisation. The group announced the closure of four manufacturing operations during the year: the French climate control facility, two power transmission cable factories and the printed circuit board factory in the UK. These operations were loss making and the Board took the view that profitability in the long-term was unlikely. In addition, the group sold Houchin Aerospace Limited for a total cash sum of £8.0 million.

Demand for the group's electronic products overall showed a small growth with sensors and electronic manufacturing services combining to more than offset the decline in components. The electrical sector revenue reduced due to the factory closures and business disposals.



Neil A Rodgers
Chief Executive



Roderick W Weaver
Finance Director

Total Group – sector analysis

	2005 £million	2004 £million
Revenue		
Sensors and electronic systems	195.0	191.5
Electronic components	129.6	137.1
Electronic manufacturing services	60.3	50.7
Electronic sector	384.9	379.3
Power systems	50.4	56.0
Power transmission	130.0	137.8
Electrical sector	180.4	193.8
Group total	565.3	573.1
Operating profit ⁽¹⁾		
Sensors and electronic systems	9.1	18.2
Electronic components	8.7	8.1
Electronic manufacturing services	2.0	1.6
Electronic sector	19.8	27.9
Power systems	4.6	3.8
Power transmission	5.5	3.0
Electrical sector	10.1	6.8
Group total	29.9	34.7

⁽¹⁾ Operating profit is stated before exceptional gain of £2.1 million.

The revenue for 2005 was £565.3 million (2004: £573.1 million). The electronic sector revenue grew from £379.3 million to £384.9 million and the electrical sector revenue reduced from £193.8 million to £180.4 million. The increase in electronics followed the acquisition in March 2005 of the business of Dage Limited, now TT electronic integrated systems, which contributed £21.7 million of revenue. The reduced revenue in the electrical sector was due to the sale of Houchin Aerospace Limited in July and the closure of the cables businesses at Bootle and Gravesend.

Operating profit before exceptional items reduced from £34.7 million to £29.9 million with margins in all sectors other than power systems under pressure.

The operating profit includes the trading losses of AB Automotive (France) SAS and the power cables factory at Gravesend which together amount to £4.8 million. Closure costs of £6.7 million have been incurred and treated as part of the exceptional items detailed on page 18. These losses have now been eliminated. The group operating margin excluding these losses and exceptional items was 6.1 per cent, the same as last year.

Sensors and electronic systems

	2005 £million	2004 £million
Revenue	195.0	191.5
Operating profit ⁽¹⁾	9.1	18.2
Capital employed	66.4	94.1
Return on capital employed	14%	19%
Number of employees	2,804	2,841

⁽¹⁾ Operating profit is stated before exceptional gain.

Sensor sales within Europe grew due to our exposure to the successful German vehicle manufacturing industry, contrasting with sales in North America which declined.

Our newly developed inductive sensor Autopad[®] technology has been successful. New business has been won from German OEMs for a range of applications including chassis, pedal, throttle air management and steering. Particularly exciting is the new steering sensor development whereby both steering torque and angle can be accurately measured within a single, cost effective, non-contact sensor package. The initial production runs for the first of these new applications are scheduled to start in late 2006.

The climate control operations within electronic systems had another difficult year. Manufacturing has been transferred from the UK to our North American climate control facility in line with the plan to improve our service to the OEMs. These operations have now returned to profitability with a very clear focus upon operational performance and internal cost reduction. Unfortunately the French climate control operation generated further significant losses during the year and it was decided that the facility should close. This is a complex and emotional process in France, but even so progress to closure was successful, and the operation ceased manufacture in March 2006.

Performance from Optek Technology our optoelectronic business, remained strong. New products launched during the year included surface mount infra red light emitting diodes and a complete range of visible light emitting displays. These new products made a useful contribution to turnover in the year and we are expecting substantial growth over the coming years.

Electronic components

	2005 £million	2004 £million
Revenue	129.6	137.1
Operating profit	8.7	8.1
Capital employed	82.4	83.5
Return on capital employed	11%	10%
Number of employees	2,597	2,752

Overall, the global market for passive electronic components remained broadly flat. We saw some declines due to end of life programmes, plus difficult market conditions in the UK for our traditional resistive products which caused a decline in profitability in our UK component operations.

Our hybrid microcircuits facility based in Austria was particularly successful in 2005. Sales, predominantly to the German automotive industry, grew as the product range was expanded into new areas, notably electronic control over electrically powered water pumps for car cooling systems and the control circuitry for solar sensors.

The decision was taken during the year to discontinue manufacturing operations at our printed circuit board facility, Prestwick Circuits Limited, based in Scotland.

Future growth in electronic components is anticipated to come from emerging markets, predominantly in the Far East. To meet this expected demand, additional sales personnel have been employed in Hong Kong, China, Japan, Korea and India. Our components, which were originally incorporated into assemblies manufactured by our customers in high cost economies, are carefully monitored as they migrate production to low cost manufacturing sources to ensure that our components continue to be used.

Electronic manufacturing services

	2005 £million	2004 £million
Revenue	60.3	50.7
Operating profit	2.0	1.6
Capital employed	9.4	(5.4)
Return on capital employed	21%	100+%
Number of employees	739	465

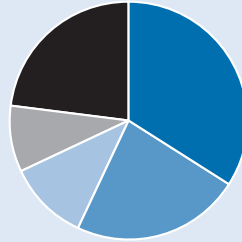
The major highlight in this sector was the acquisition of the business of Dage Limited, now TT electronic integrated systems, with plants in the UK and China. Performance from both operations has exceeded estimates made at the time of acquisition, and the Chinese facility has been expanded with the addition of another 4,000 square metre factory. This operation will form the basis for product transfers from higher cost UK and USA based group companies to low cost manufacturing sources and access to the rapidly growing Chinese market.

New contract manufacturing operations at our Malaysian factory commenced volume manufacture during 2005. A second production line was transferred to Malaysia during the year to support the award of a telephone systems contract worth in excess of £8 million.

The UK operations maintained steady performance although one site saw a substantial downsizing following the transfer of manufacture to Malaysia. Further rationalisation of our UK operations can be expected during 2006.

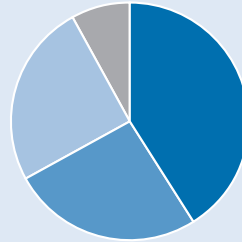
Revenue by product

- Sensors and electronic systems
- Electronic components
- Electronic manufacturing services
- Power systems
- Power transmission



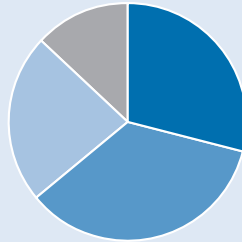
Revenue by origin

- United Kingdom
- Rest of Europe
- North America
- Rest of the World



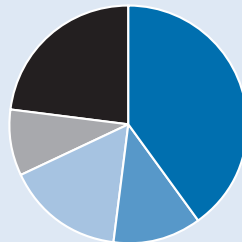
Revenue by destination

- United Kingdom
- Rest of Europe
- North America
- Rest of the World



Revenue by market

- Automotive
- Telecom and computer
- Industrial
- Power systems
- Power transmission



Power systems

	2005 £million	2004 £million
Revenue	50.4	56.0
Operating profit ⁽¹⁾	4.6	3.8
Capital employed	1.0	2.7
Return on capital employed	100+%	100+%
Number of employees	569	611

⁽¹⁾ Operating profit is stated before exceptional gain.

In anticipation of a contract award from a customer based in Central America, the Mexican power generator manufacturing operations were expanded with the addition of a 5,000 square metre factory site. Shipments of this new major contract have now started and are expected to be valued at over £10 million during 2006. Business during 2005 remained at a high level primarily due to demand from China.

The UK uninterruptible power supply and generator service businesses continued to expand and improve their profitability.

In August 2005 Houchin Aerospace Limited was sold for a cash consideration of £8 million.

Power transmission

	2005 £million	2004 £million
Revenue	130.0	137.8
Operating profit ⁽¹⁾	5.5	3.0
Capital employed	38.5	57.7
Return on capital employed	14%	5%
Number of employees	1,464	1,688

⁽¹⁾ Operating profit is stated before exceptional gain.

UK based manufacturing operations at our power and mineral cable factories were closed during the year.

The cables business based at Birtley, UK has improved both revenue and profits assisted by the high demand for cables from the house building industry.

The electrical accessories business had a very successful year with new management in place. New product development, together with the transfer of much of the material sourcing and product manufacture to the Far East, will ensure a profitable future.

Exceptional gain

The group sold the site of the Gravesend cables factory for an initial consideration of £12.5 million. There are further cash proceeds expected the amount of which depend on the value of the onward sale to a land developer. TT electronics will receive 100 per cent of the additional consideration up to an aggregate total of £20 million and a reducing proportion of the consideration thereafter. The cost of sale, being the carrying cost of the land and buildings, has all been charged against the initial sale proceeds and any additional proceeds will be accounted for as cash and profit, subject only to further legal and professional costs. This onward sale is not likely to occur until 2007. The closure costs associated with this site were £3.1 million.

Costs of £6.7 million have been incurred in the closure of the French climate control factory. Furthermore this business incurred trading losses of £3.7 million during 2005, which have been included in operating profit.

Houchin Aerospace Limited, the aircraft standby power generation business, was sold for £8 million and the profit on sale of £4.1 million is included in the exceptional gain.

Discontinued operation

The group has discontinued the manufacture of printed circuit boards at its factory in Scotland. This business incurred substantial losses and, despite management's efforts, the competition from low labour cost sources in the Far East rendered a return to profitability unlikely. This business is shown as the discontinued operation with losses after tax credits of £5.3 million.

Finance costs

The bank and finance lease interest paid (net of bank interest receivable) was £3.6 million (2004: £3.2 million). This arose in a period of increasing interest rates, lower average net borrowings of the group following strong cash generation and the proceeds from disposals less the cash cost of the acquisition.

Net finance costs include the credit for the expected return on pension funds' assets and the charge for the unwinding of the discount used in arriving at the present value of the pension schemes' liabilities. The net of these overall amounts to £2.5 million (2004: £2.3 million).

Taxation

The group taxation charge of £5.2 million (2004: £9.1 million) is a 29 per cent charge on profit after exceptional items, finance costs and the discontinued operation. The rate of taxation reflects the aggregate effect of the pre-tax losses and exceptional closure costs in France for which no tax relief has been accounted (although a tax claim has been made),

the profit on sale of Houchin Aerospace Limited which does not suffer a capital gains tax charge and some partial relief of the capital gain on the sale of land. The group rate of tax excluding these items would have been 28 per cent.

Pensions

During 2005, the group operated nine defined benefit pension schemes in the UK and two overseas, all of which are closed to new entrants. Calculated on an IAS 19 basis, the total of these schemes' liabilities was £335.9 million and assets £245.7 million, resulting in a deficit of £90.2 million. The group intends to eliminate the deficit as re-measured each year over the next ten years and additional cash contributions of £9.3 million were made in 2005 bringing the total cash contributions for 2005 to £14.1 million (2004: £8.7 million).

Despite the increase in asset value following the strengthening of stock market values, the deficit has increased as a result of the decrease in the discount rate being applied to the schemes liabilities and by longer life expectancy. The Board continues to recognise the increasing cost of pensions and is actively reviewing its options. Since the year end, the pension schemes of TT electronics plc, Prestwick Circuits Limited and four other smaller schemes have been merged. This will reduce the cost of administration of these small schemes.

Treasury matters

	2005	2004
Net interest paid cover – times	9	11

The group maintains central control over its treasury function so as to maintain a cost efficient and risk averse source of borrowing facilities more than sufficient for the needs of the operations around the world. It has policies and procedures which are monitored and controlled through monthly meetings of the treasury committee.

In November 2005, the group arranged a new mid-term borrowing facility for £70 million over five years in the UK to replace the facility which was due to mature in June 2006. A further facility for \$20 million over two years was set up in the USA. These, together with overdraft facilities with major clearing banks in the countries where the group operates, form the basis of the group's external finance arrangements.

The risks to the group's business arising from fluctuations in foreign exchange rates, interest rates and the cost of certain key materials are managed by the use of forward contracts and swaps. Similarly, the effect of changes in foreign currency exchange rates on the

translation of overseas assets and trading results is minimised by use of forward currency contracts. The net effect of changes since 2004 in foreign currency rates used to translate the sales and operating profit of the group's overseas companies were reductions of £2.9 million and £0.1 million respectively.

Cash flow and working capital

	2005 £million	2004 £million
Total net borrowings	47.1	67.3
Cash generated from operations	49.6	53.9
Capital expenditure	15.6	24.6
	Days	Days
Debtors	50	54
Creditors	44	49
Inventory	74	79

During the year the group reduced total net borrowings by £20.2 million from £67.3 million. The proceeds on the disposal of Houchin Aerospace Limited and the land at the Gravesend site totalled £20.5 million and expenditure on the acquisition of Dage Limited amounted to £9.7 million. Tight financial control is maintained on the working capital at each operating company and a central credit control function monitors the group's debtors, reporting monthly to a central credit control committee. Generally the bad debt experience of the group has been good but in October 2005 certain parts of Delphi Inc. entered the Chapter 11 process in the USA. Delphi Inc. was and continues to be a large customer of TT electronics and the realisability of this trade receivable has been carefully considered and a provision of £1.6 million has been made against the risk of non-payment.

Capital expenditure on property, plant and equipment totalled £15.6 million (2004: £24.6 million). There are several major projects underway, mainly for new automotive products, which will require an increased amount of capital expenditure in 2006. All capital expenditure over £20,000 is authorised by an executive Director before being committed to by the operating companies.

The group's net gearing has improved to 31 per cent (2004: 40 per cent).

Accounting and reporting

This is the first Annual Report presented using International Financial Reporting Standards (IFRS).

TT electronics issued a report in July 2005 in which the changes to the results of the first half and the full year 2004 and the balance sheets at December 2003 and 2004 and June 2004 were set out and explained.

The Interim Report issued in September 2005 and the consolidated results for the full year 2005 set out in this Annual Report have been prepared using international accounting policies consistent with those used in that earlier report.

The financial information in respect of the Company is not required to be reported under IFRS and has therefore been prepared under UK GAAP and is included as a separate section in this Annual Report.

Dividends

The balance sheet requirement under either IFRS or current UK GAAP is to report a final dividend as a liability only after that dividend has been approved. No proposed dividend is therefore included in the balance sheet. The proposal to declare an unchanged final dividend of 6.36p per share (2004: 6.36p per share) forms part of the resolutions for the forthcoming Annual General Meeting.

Outlook

The completion of 2005's rationalisation of the group has eliminated the major loss making operations and will provide a platform for improved future profitability.

Work to transfer certain product ranges to lower cost manufacturing sources will continue throughout the current year and beyond. The group currently employs 38 per cent of its workforce in low labour cost economies, and the Board believes this proportion will continue to increase.

The automotive market in which we operate remains challenging. Our sales to the successful German automotive market remain higher than those to the troubled North American market.

We continue to develop new technologies to support growth in our main markets; Autopad® is an excellent example of our success in this area.

The commitment of our people across the world remains key to our success.

We expect the closure of the loss making operations to have a positive effect on the profitability of our global operations and we have started 2006 with a strong order intake.

Neil A Rodgers
Chief Executive
27 March 2006

Roderick W Weaver
Finance Director
27 March 2006

Directors and Company Secretary



John W Newman (60)
Executive Chairman
Chairman of the Nominations Committee
Appointed to the Board in 1986. A Chartered Accountant who is also Chairman of the Newship group of companies.

Neil A Rodgers (52)
Chief Executive
Chairman of the Corporate and Social Responsibility Committee
Appointed to the Board in 2003 and became Chief Executive on 5 April 2004. A Chartered Management Accountant who joined TT electronics plc in 1992. Previously with Bodycote International PLC and Siebe plc.



Roderick W Weaver FCA (55)
Finance Director
Appointed to the Board in 1995. A Chartered Accountant who was previously with AB Electronic Products Group PLC.

James W Armstrong (58)
Corporate Development Director
Appointed to the Board in 1998. A Chartered Accountant previously with Newship Group Limited. Joined TT electronics plc in 1988.



David S Crowther (60)
Independent
Non-executive Director
Chairman of the Audit Committee
Appointed to the Board in 2005. A Chartered Accountant who was a senior partner with PricewaterhouseCoopers LLP until his retirement in June 2004. Currently a member of the Professional Oversight Board for Accountancy and a Director of the Financial Ombudsman Service Limited. Member of the Remuneration and Nominations Committees.



David E A Crowe (66)
Non-executive Director
Appointed to the Board in 1993. Served as an executive Director to 30 April 2000 and is now a Non-executive Director. Previously a senior partner of a City firm of solicitors based in London. Member of the Corporate and Social Responsibility Committee.



Martin G Leigh ACMA (61)
Group Company Secretary
Member of the Corporate and Social Responsibility Committee.



Timothy H Reed (65)
Senior Independent
Non-executive Director
Chairman of the Remuneration Committee
Appointed to the Board in 1973. Non-executive Chairman from 1974 to 1995. Previously a senior partner of DLA LLP – Solicitors. Also a Non-executive Director of a number of private companies. Member of the Audit and Nominations Committees.



Sir Laurence Magnus (50)
Independent
Non-executive Director
Appointed to the Board in 2001. An investment banker, Vice Chairman of Lexicon Partners, Non-executive Chairman of Xchanging ins-sure Services, a Non-executive Director of The J.P. Morgan Fleming Income & Capital Investment Trust plc and The Cayenne Trust plc. He is Deputy Chairman of the National Trust and an elected member of its Council and a member of The UK Listing Authority Advisory Committee. Member of the Audit, Remuneration and Nominations Committees.



Directors' report

The Directors submit their report and the audited financial statements for the year ended 31 December 2005.

Principal activities and business review

TT electronics plc is the parent company of a group whose principal activities during the year were the design, manufacture and sale of electronic and electrical components for the automotive, telecom, computer and industrial markets. The Business review is set out on pages 14 to 19 of this Annual Report and should be read as part of the Directors' report.

The principal operating subsidiaries, which are listed on page 5, all operate in the electronic and electrical sectors.

Results and dividends

The group's profit on ordinary activities before taxation was £26.8 million (2004: £30.0 million) and after taxation a profit of £13.0 million (2004: £18.4 million). The audited financial statements of the group and the Company are set out on pages 34 to 68.

The Directors recommend a final dividend of 6.36p per share (2004: 6.36p) to be paid on 26 May 2006 to ordinary shareholders on the register at 19 May 2006 which, together with the interim dividend paid on 27 October 2005, makes a total of 10.05p for the year (2004: 10.05p).

Acquisitions

On 10 March 2005 the group acquired Dage Limited and its subsidiaries, the business of which now trades as TT electronic integrated systems in the UK and China. Further details are set out in note 28 to the consolidated financial statements.

Fixed assets

No professional valuation of land and buildings has been carried out during the year, but in the opinion of the Directors the market value, on an existing use basis, is considered to be not materially different from net book value.

Research and development

The group carries out research and development in order to develop new products and processes and to improve substantially existing products and processes.

Future prospects

The future prospects of the group are referred to in the Chairman's statement on page 3 and the Business review on page 19.

Financial risk management objectives and policies

These are set out in treasury matters in the Business review on pages 18 and 19.

Directors

The Directors set out below and M S Evans, who retired on 10 January 2005, held office during the year. D S Crowther was appointed on 10 January 2005.

In accordance with the Articles of Association, J W Newman, J W Armstrong and N A Rodgers retire by rotation and T H Reed retires in accordance with the Code on Corporate Governance. J W Newman, J W Armstrong, N A Rodgers and T H Reed, being eligible, offer themselves for re-election at the Annual General Meeting.

Directors' interests

The Directors of the Company at 31 December 2005 held beneficial interests in the following numbers of the Company's ordinary shares of 25p each on 1 January 2005, 31 December 2005 and 20 March 2006:

	31 Dec 2005 and 20 Mar 2006	1 Jan 2005 (or date of appointment if later)
	Ordinary shares	Ordinary shares
J W Newman	16,242,627	16,142,627
N A Rodgers	10,000	10,000
R W Weaver	12,500	12,500
J W Armstrong	14,582	14,582
T H Reed	138,634	118,634
D E A Crowe	48,454	48,454
Sir Laurence Magnus	16,685	16,685
D S Crowther	10,000	—

The following Director of the Company held non-beneficial interests in the following numbers of the Company's ordinary shares of 25p each on 1 January 2005, 31 December 2005 and 20 March 2006:

	31 Dec 2005 and 20 Mar 2006	1 Jan 2005
	Ordinary shares	Ordinary shares
J W Newman	10,182,437	10,182,437

The ordinary shares in which J W Newman held non-beneficial interests comprised part of the holding in which he held beneficial interests.

Share capital

The share capital during the year and the number of ordinary shares reserved for issue are shown in note 16 to the consolidated financial statements.

Annual General Meeting

The Notice of the Company's 2006 Annual General Meeting is set out on pages 70 and 71.

Resolutions will be proposed at the Annual General Meeting to renew for a further year the authority of the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over ordinary shares, or sell shares held in treasury (see below), for cash up to a maximum nominal amount representing 5 per cent of the issued ordinary share capital without first making a pro rata offer to all existing ordinary shareholders.

A resolution will be proposed authorising the Company to make market purchases of its own shares of up to 10 per cent of the issued ordinary share capital. The Company will only make purchases of its own shares if the Directors are satisfied that it would be in the best interests of the Company to do so and that such purchases would result in an increase in the earnings per share attributable to ordinary shareholders.

Pursuant to changes to the Companies Act 1985 that came into force on 1 December 2003, shares purchased out of distributable profits by the Company under the power granted by the resolution may be held in treasury (for later sale, cancellation or, providing Listing Rule requirements are met, transfer to an employee share scheme) instead of being cancelled immediately, providing that certain statutory requirements are met and to the extent that such shares held in treasury do not exceed 10 per cent of the Company's issued share capital.

Shares purchased by the Company and held in treasury can be held indefinitely pending, for example, a suitable time to place them back on the market. This would enable the Company, if the Board believed the circumstances to be appropriate, to sell shares held in treasury to take advantage of capital growth in its own shares. Sales of treasury shares must be for cash and are subject to statutory pre-emption rights.

Shares purchased by the Company may, in light of the circumstances existing at the time of the purchase, also be immediately cancelled. The effect of any cancellation would be to reduce the number of shares in issue. For most purposes, while held in treasury, shares are treated as if they had been cancelled (for example, shares held in treasury carry no voting rights and do not rank for dividends).

A resolution will be proposed to approve the Directors' remuneration report for the year ended 31 December 2005.

Substantial shareholdings

At 20 March 2006 the Company had been notified of the following disclosable interests which represented 3 per cent or more of the existing issued ordinary share capital:

	Number	%
J W Newman ⁽¹⁾	16,242,627	10.4
FMR Corp ⁽²⁾	10,830,950	6.9
Newship Industries Limited ⁽¹⁾	10,182,437	6.5
Newship Investments Limited ⁽¹⁾	9,903,250	6.3
Tweedy, Browne Company LLC	6,709,670	4.3
Legal & General Investment Management Limited	4,776,549	3.1

⁽¹⁾ The TT electronics shares in which Newship Industries Limited is interested are, as to 9,903,250 such shares, the same as those in which Newship Investments Limited is interested and comprise part of the holding of TT electronics shares in which J W Newman is interested.

⁽²⁾ The TT electronics shares in which each of FMR Corp, Fidelity International Limited and Edward C Johnson 3d have notified an interest are the same shares.

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

Supplier payments policy

The group's policy in relation to the payment of its suppliers is to agree its terms of payment with each supplier when negotiating the terms of each business transaction. It is group practice to abide by the agreed terms of payment unless the supplier defaults under its own obligations. Trade creditors at the year end amount to 44 days of average supplies for the year (2004 – 49 days).

Auditors

Grant Thornton UK LLP offer themselves for reappointment as Auditors in accordance with section 385 of the Companies Act 1985. A resolution will be proposed at the Annual General Meeting to reappoint Grant Thornton UK LLP as Auditors to the Company and to authorise the Directors to fix their remuneration.

The Auditors' responsibilities are set out on pages 33 and 69 and should be read in conjunction with those of the Directors as set out below.

Statement of Directors' responsibilities in relation to financial statements

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the group as at the end of the financial year and of the group profit or loss for the financial year.

The Directors are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Directors have elected to prepare the Company financial statements under UK Generally Accepted Accounting Practice (UK GAAP).

The Directors, in preparing the financial statements, are required to use suitable accounting policies and to apply them consistently, to make reasonable and prudent judgements and estimates and to state that the consolidated financial statements comply with IFRS as adopted by the European Union and that the Company financial statements comply with UK GAAP.

The Directors have responsibility for ensuring that the Company and the group prepare and maintain accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the group at that time and which enable them to ensure that the financial statements comply with the Listing Rules and the Companies Act 1985.

The Directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the financial information on the Company website.

Going concern

The Directors confirm, after making appropriate enquiries, that they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 27 March 2006 and signed on its behalf by:

M G Leigh
Secretary

Directors' report on corporate governance

The Company is committed to high standards of corporate governance through the application of the principles of good corporate governance set out in the Combined Code ("Code") contained in the Listing Rules of the Financial Services Authority. Throughout the year ended 31 December 2005, the Company has complied with the Code.

The Board

The Board's main roles are to provide leadership of the group, set the group's strategic objectives and ensure that the necessary resources are made available to the management to enable them to meet those objectives. In addition the Board has reserved certain specific matters to itself for decision, including financial policy, acquisition and divestment policy and approval of major capital expenditure projects. It also appoints members of the Board and appoints and removes members of Board Committees, reviews recommendations of the Board Committees and the financial performance and operation of each of the group businesses.

During 2005 the Board comprised four executive Directors and four Non-executive Directors. D E A Crowe is not considered by the Board to be independent due to his service as an executive Director up to 30 April 2000. Under the Code the Board is required to perform a review of the independence of T H Reed, who has served on the Board for more than nine years. The Board has performed this review and has concluded that from his background as a practising lawyer, his financial independence and his strong and independent voice on the Board, T H Reed is independent. He will be put forward for re-election at the Annual General Meeting in 2006. D S Crowther who was appointed on 10 January 2005 and Sir Laurence Magnus are independent as defined by the Code.

T H Reed is the senior independent Non-executive Director and chairs the Remuneration Committee. D S Crowther is Chairman of the Audit Committee.

During the year there were six Board meetings on scheduled dates for which full notice was given. Further meetings were held when required. M S Evans attended the meeting held before his retirement on 10 January 2005; Sir Laurence Magnus and T H Reed were each absent from one meeting and J W Newman was absent from two meetings. All other Directors attended all of these meetings.

Directors' biographies are shown on page 20. Each Director will offer himself for re-election at least every three years.

The Executive Chairman and Chief Executive

There is a clear division of responsibility between the Executive Chairman and the Chief Executive. The Executive Chairman is responsible for the leadership of the Board and ensures that all Directors receive sufficient relevant information on financial, business and corporate matters to enable them to participate effectively in Board decisions. He takes the leading role in strategic planning, liaison with institutional investors and banking relationships and is also directly responsible through the appropriate senior executives for the functions of treasury, taxation, pensions, legal and insurance matters.

The Chief Executive's primary role is day to day management of the group, supervision of operations and the maximisation of its profits in the long-term and ensuring that the group's businesses are managed in line with approved business plans and comply with applicable legislation and group policy.

Under the current provisions of the Code the Chairman should on appointment be considered independent. J W Newman was appointed Executive Chairman in 1995 prior to the Company being bound by any provision as to the independence of its Chairman.

Relationships with shareholders

J W Newman, N A Rodgers and R W Weaver meet institutional investors immediately after publication of the annual and interim results. The executive Directors and the senior independent Non-executive Director are available at other times to enter into dialogue with institutional investors. The Company's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings. The results of these meetings are reported to the Board. Information provided at these meetings together with financial press releases are available on the group's website. The Annual General Meeting is used by all Directors to communicate with both institutional and private investors.

Board procedures and performance evaluation

The Nominations Committee makes recommendations to the Board on the appointment of executive or Non-executive Directors and the appointment of members to the Audit and Remuneration Committees.

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

The Board conducted an evaluation of its own collective performance covering the key areas of: (i) maintaining and improving its performance; (ii) testing and developing its strategy; (iii) maintaining the optimum mix of skills and knowledge amongst the Directors; (iv) ensuring robust and effective risk management; and (v) providing full and timely information on financial and other performance.

The performance of each Director and the effectiveness of the Board Committees is reviewed at least annually.

Board Committees

The Board has established a number of Committees with their own delegated authorities as defined in their terms of reference. These terms of reference are reviewed periodically and the Board receives copies of minutes of their meetings. The Board appoints the Chairman and members of all Board Committees having received the recommendations of the Nominations Committee.

The principal Committees and a brief description of their terms of reference (full details of which are available for shareholder inspection at the Annual General Meeting) and their duties are as follows:

a) Nominations Committee

The Nominations Committee comprises the independent Non-executive Directors and the Executive Chairman and makes recommendations to the Board on the appointment of both executive and Non-executive Directors and the appointment of members to the Audit and Remuneration Committees. The Chairman of the Committee is the Executive Chairman. During the year the Committee met in December 2005, to carry out the self assessment evaluation of its performance, but this meeting was adjourned because two members were unable to attend. The Committee then reconvened in January 2006 to conclude the outstanding business.

b) Remuneration Committee

The Directors' Remuneration Report on pages 28 to 32 includes details of the Remuneration Committee and its work.

c) Audit Committee

The Audit Committee comprises the independent Non-executive Directors and is chaired by D S Crowther. The Committee's duties include reviewing the external audit arrangements, including the scope, independence, results and cost effectiveness of the audit, any changes in accounting policies and procedures, the judgmental decisions affecting financial reporting, compliance with accounting standards and with the Companies Act, and considering the Auditors' comments on internal controls and management's response. The Audit Committee monitors the nature and extent of non-audit services provided by the Auditors to ensure that their independence and objectivity is maintained. The Audit Committee conducts risk management assessments and recommends to the Board any changes to the Register of Principal Risks. It also monitors the performance of the internal audit and other internal control functions and is responsible for reporting to the Board the effectiveness of the group's internal control systems. The Committee is responsible for the review of the Company's written procedures for responding to any allegations made by whistleblowers.

During the year the Audit Committee met four times and two of the independent Non-executive Directors attended all the meetings. T H Reed was absent from one meeting. At two of the meetings the Committee met the Auditors without executives of the Company being present.

In respect of the year, the Committee carried out a self assessment of its performance based on an independent questionnaire completed by the members of the Committee.

Members of the Committee attended training courses during the year to ensure that their financial awareness was up to date and specifically that they were familiar with the implications of the introduction of International Financial Reporting Standards.

Review of principal risks and internal controls

The Directors have overall responsibility for the group's systems of internal control and for reviewing their effectiveness. These systems have been in place for the full financial year and up to the date the financial statements were approved. A process using standardised software across the group to document key controls and processes was started in 2005. The successful completion of this project in 2006 should ensure that risk is further analysed, processes and controls better documented, the effectiveness of internal controls thoroughly evaluated, and that there are enhanced mechanisms for follow-up and monitoring in place throughout the group. During the year, the internal audit resource was increased in recognition of the importance of internal controls to the group.

The risk management procedures and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the group's strategic objectives. It should be recognised that such systems can only provide reasonable and not absolute protection against material misstatement or loss.

Risk management and evaluation take place as part of the annual budget preparation cycle and the monthly management meetings of operating companies. Having identified the risks, each operating company then monitors and reviews them on a regular basis. The group's internal control manager reports to the Audit Committee a minimum of twice per year and more frequently as required. The group's insurance and risk manager maintains the Group Register of Principal Risks and reports to the executive Directors and the Audit Committee on the risks set out therein. The Board reviews at each Board meeting the current position. Further reviews are carried out throughout the year by the Audit Committee.

The group is committed to a policy of maintaining strict internal control over all its activities. Controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are properly authorised, and that material errors and irregularities are either prevented or are discovered on a timely basis. The systems of control are reviewed regularly and enhanced to meet the requirements of the group's development.

Principal features of the system of internal control include:

- the Directors meet every other month as a Board to monitor financial performance, give direction on significant strategic and financial issues, and review the principal risks.
- the group is structured so that each operating company is an autonomous unit operating within the policies, rules and procedures determined by the Directors and communicated through the group manual. The Directors exercise control over operating companies through senior executives, who monitor and oversee the activities, financial performance and controls of each operating company. The directors of operating companies are held accountable for the effectiveness of the implementation and maintenance of controls within their companies. This provides constant and consistent management appropriate to a devolved structure.
- the group has detailed financial planning and reporting systems. Detailed management accounts are prepared monthly by each operating company comparing actual performance with budget. The financial performance of each operating company is subjected to detailed formal review at monthly meetings. One of the purposes of these reviews is the early identification of potential business risks and agreement on suitable and prompt courses of action. Operating companies prepare strategic plans and annual budgets which are reviewed and approved by the divisional senior executives and the Board.
- the group has comprehensive control and approval procedures which are rigorously enforced. There are clear definitions of appropriate authorisation levels. Capital investment and other major items of expenditure are made only after compliance with detailed appraisal procedures and, if above set levels, only with the approval of the executive Directors.
- accounting and reporting policies and practices require that the group's accounting records are prepared with consistency, accuracy and compliance with the appropriate regulations.

- the framework for maintaining control and the adherence to procedures is reviewed by the internal control manager, who reports to the Finance Director and the Audit Committee.
- certain key functions, including treasury, taxation, pensions, provision of legal advice and insurance are controlled at the group's head office and are monitored by executive Directors.

The Directors have reviewed the effectiveness of the systems of risk management and internal control during the period covered by the accounting year to 31 December 2005 and the period since then to the date of this report and have taken appropriate actions to make improvements.

Social responsibility

Charitable donations

During the year the group contributed £50,000 (2004: £50,000) for charitable purposes. There were no political contributions.

Employees

Every company in the group is encouraged to develop and implement employment policies and remuneration schemes designed so that employees identify with their company's achievements and the ways by which their knowledge and skills can best contribute towards its success. The Directors recognise the importance of employee involvement throughout the group and this is fostered by the development of communications through the normal subsidiary company reporting procedures. The group is committed to the fair and equitable treatment of all its employees irrespective of gender, race, age, religion, disability or sexual orientation. The group gives equal opportunities to disabled persons whenever possible both in recruitment and career development.

Health, safety and environmental policy

The Board of Directors of TT electronics plc is committed to conducting all group activities with appropriate care and consideration towards employees, contractors, visitors and neighbours.

Companies in the group adopt a responsible attitude towards the protection of the environment. The group strives to meet requirements of all applicable environmental laws and regulations, to improve continuously environmental performance and to contribute to long-term economic, environmental and social sustainability. Each site is encouraged to attain the latest quality accreditation where appropriate. Group companies develop energy-efficient means of manufacture, seek to reduce, re-use and recycle waste, and arrange for disposal of other waste responsibly.

During the year, the Board established a Corporate and Social Responsibility Committee to monitor and report to the Board on health, safety and environmental matters across the group. This Committee, chaired by the Chief Executive, also comprises the Company Secretary, the group insurance and risk manager and a Non-executive Director.

The Directors have an obligation to comply with all relevant legislation and codes of practice while actively seeking to reduce the incidence of accidents, work-related ill-health, emissions, waste and dangerous occurrences. The group strives to achieve and maintain safe conditions of work for all employees and sub-contractors, promotes and encourages the identification, assessment and control of risk throughout the group and makes available adequate financial provision as required to meet its obligations.

By reason of the geographical spread and operational diversity of the group, the application of this policy is achieved through the management structure of the operating divisions and companies. Operational management is accountable for developing effective management systems and employing competent advisors. The group supports as necessary and monitors and reviews performance on an ongoing basis.

Approved by the Board on 27 March 2006 and signed on its behalf by:

M G Leigh
Secretary

Directors' remuneration report

The Board submits its Directors' remuneration report for the year ended 31 December 2005 which has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ('Regulations') and meets the relevant requirements of the Listing Rules of the Financial Services Authority. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company to be held on 17 May 2006.

The Regulations require the Auditors to report to the Company's members on the auditable section of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration Committee

The Remuneration Committee comprises the independent Non-executive Directors. The Chairman of the Committee is the senior independent Non-executive Director. During the year the Committee met three times and all members of the Committee attended the meetings. In respect of the year, the Committee carried out a self assessment of its performance based on an independent questionnaire completed by the members of the Committee.

The role of the Committee is to establish the remuneration policy and to consider and approve on behalf of the Board the terms and conditions of service of the executive Directors, Divisional Chief Executives and the Company Secretary. This covers salaries and other benefits, pensions, performance related pay and share incentive plans.

Remuneration policy

The objectives of the group's remuneration policy are to attract, retain and incentivise management with appropriate expertise to realise the group's business objectives and to align their interests with those of shareholders.

The remuneration policy is to provide executive Directors with a basic salary that is competitive with the basic salary paid to Directors in comparable companies. In addition a performance linked element of remuneration is intended to provide the executive Directors with an opportunity to receive increased remuneration subject to meeting conditions which show that the group's financial performance has been enhanced.

The Remuneration Committee reviewed the group policy on service contracts in February 2006. The Committee concluded that its former policy was no

longer appropriate for the group in the current and foreseeable environment and that it was therefore necessary to adopt a new policy to meet the objectives of being able to recruit and retain executives of the appropriate quality. The new policy is to have executive Directors employed on full-form service contracts prepared by the Company's solicitors. The contracts include 12 month non-compete clauses and standard provisions for summary termination for "cause", and are terminable on 12 months notice from either side. There is no provision for liquidated damages or change of control payments and no entitlement to participate in any enhanced redundancy pay plans of the group from time to time. New service contracts have been entered into with the current executive Directors (other than the Executive Chairman) on this basis.

For 2005 the remuneration packages for N A Rodgers and J W Armstrong included bonuses dependent on the profit of the group for that year. The bonuses, which were capped at 100 per cent of basic salary, would have been payments of £10,000 and £5,000 respectively for each £1 million of profit post interest before goodwill amortisation, exceptional items (including the gain on the sale of the Gravesend land less closure costs) and taxation over a profit of £26 million (calculated on a UK GAAP basis). For 2005 the remuneration package of R W Weaver included a discretionary bonus determined by the Remuneration Committee, which was capped at 100 per cent of basic salary. Having regard to the profit of the group for the year to 31 December 2005, no bonuses will be paid.

For 2006 the remuneration packages of N A Rodgers and J W Armstrong will again include bonuses capped at 100 per cent of basic salary dependent on the profit of the group for that year. These bonuses will be paid on the profit of the group above a predetermined amount set by the Remuneration Committee and at a predetermined rate. For 2006 the remuneration package of R W Weaver will include a bonus which will no longer be discretionary but will be based on a formula predetermined by the Remuneration Committee. The bonus will be capped at 100 per cent of basic salary.

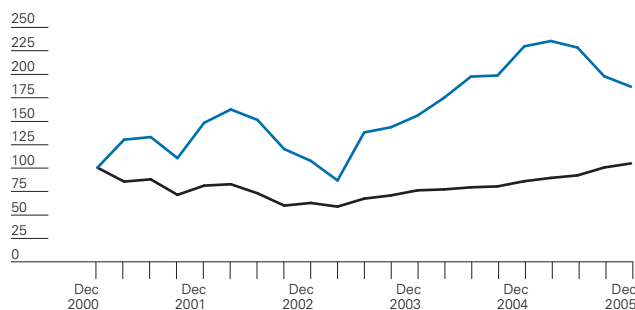
The remuneration packages for the Divisional Chief Executives and the Company Secretary are reviewed by the Remuneration Committee. Annual bonuses are paid to the Divisional Chief Executives in arrears based on budgeted profit before taxation, generally calculated at 2 per cent of salary for each 1 per cent of actual profit above the budgeted profit in respect of companies for which they are responsible. The Company Secretary is entitled to a discretionary bonus.

The annual bonuses for Divisional Chief Executives and the Company Secretary are capped at 100 per cent of salary.

The Remuneration Committee reviewed the recommendations of the Executive Chairman on the Company's policy on service contracts for Divisional Chief Executives and the Company Secretary. The Committee recommended and the Board decided that there should be no alteration to their contracts of employment but did agree to the introduction of an enhanced redundancy pay plan for them. This provides for payments on a sliding scale, subject to a maximum payment of one year's salary if they are made redundant, as defined in the Employment Rights Act 1996, subject to having completed one year's service.

Performance graph

For shareholders' information, the Company's total shareholder return performance, assuming dividends are reinvested, for the five years to 31 December 2005 is shown on the graph below compared with the return performance achieved by the FTSE All Share companies. The FTSE All Share has been selected as a broad equity market index comparison.



Key
— TT electronics plc — FTSE All Share

Long term incentive plan

At an Extraordinary General Meeting held on 20 October 2005, the Long Term Incentive Plan 2005 for executive Directors and senior executives was adopted. This plan replaced the Long Term Incentive Plan established in September 1999 which had no participants. Under the Long Term Incentive Plan 2005, participants may receive annual awards of up to 100 per cent of basic salary per annum. This is the maximum award and the Remuneration Committee intends to grant awards conservatively within this limit. The award is a contingent right to receive shares in the future subject to continued employment and the achievement of predetermined performance criteria. Participants make no payment upon the grant, vesting or release of an award (other than such as may be required as a result of tax, social security or other regulatory requirements). Awards will vest after three years. The initial performance criteria will be that the Company's earnings per share, measured over a three-year period, must grow by at least 3 per cent compound per annum in excess of the Retail Price Index. At this level only

25 per cent of an award would vest. For an award to vest in full, the Company's earnings per share measured over the same period must have grown by at least 7 per cent compound per annum in excess of the Retail Price Index. For earnings per share between these thresholds, vesting will be calculated on a proportional basis.

In designing the Long Term Incentive Plan 2005, the Committee consulted with the institutional representative bodies and major shareholders and took advice from Inbucon Consulting in respect of market practice, the performance conditions and compliance with institutional guidelines. Inbucon Consulting carry out no other work for the group.

At the date of this report there are no participants in the Long Term Incentive Plan 2005 but it is anticipated that awards will be made as soon as possible.

Summary of closed share option schemes

Following the approval of the Long Term Incentive Plan 2005 at the Extraordinary General Meeting held on 20 October 2005, all existing share option schemes were closed for future grants.

Options granted under the 1994 and 1996 Executive Share Option Schemes are generally exercisable not less than three and not more than ten years after their grant, and only then if a performance criterion has been achieved. Prior to 2001 the group must have experienced annual growth in its earnings per share of at least 2 per cent over and above the Retail Price Index for a period of three years following the grant of the options. Options granted after 2000 carry a performance condition stating that the group must have experienced annual growth in its earnings per share of at least 4 per cent over and above the Retail Price Index for a period of three years following the grant of the options. The constituent parts of the condition are calculated each year to see if the performance condition has been met.

Options granted under the 2004 Inland Revenue Approved and the Unapproved Share Option Plans carry a performance condition stating that the growth in the group's earnings per share must exceed the increase in Retail Price Index by an average of 4 per cent per annum over a period of three consecutive years. Any year in which earnings per share is negative cannot be included. Options granted under these schemes lapse on the sixth anniversary of the date of grant in the event that any exercise condition is no longer capable of satisfaction.

Non-executive Directors

The remuneration of the Non-executive Directors is decided by other members of the Board.

Following the review in March 2004, the Board has continued to monitor the levels of fees paid in comparable companies. The fee increases in 2005 were in line with inflation. No benefits in kind are provided for Non-executive Directors.

Pensions

The Company operates a defined benefit scheme for employees including the executive Directors. All executive Directors who served throughout the year are members of the scheme. Benefits are based on years of accrued service and pensionable salary.

Audited information

Aggregate Directors' emoluments

Set out below are tables of remuneration of the Directors who served throughout the year ended 31 December 2005 (except where stated). The amount of each element in the remuneration received by the Directors in the year or from date of appointment including basic salary, bonus and fees and benefits in kind was:

	Salary £000	Bonus payable £000	Benefits £000	2005 Total £000	2004 Total £000
Executive Directors					
J W Newman	471	–	71	542	541
N A Rodgers	248	–	31	279	347
R W Weaver	201	–	33	234	283
J W Armstrong	155	–	24	179	220
S W A Comonte (retired 5 Apr 2004)	–	–	–	–	72
	Salary/fees £000	Bonus payable £000	Benefits £000	2005 Total £000	2004 Total £000
Non-executive Directors					
T H Reed	35	–	–	35	34
D E A Crowe	26	–	–	26	26
Sir Laurence Magnus	26	–	–	26	26
D S Crowther (appointed 10 Jan 2005)	26	–	–	26	–
M S Evans (retired 10 Jan 2005)	1	–	–	1	26
	1,189	–	159	1,348	1,575

The value of benefits in kind received during the year comprised principally life assurance cover, company car benefits and the provision of private medical insurance. No Directors received expense allowances during the year.

Executive Directors' pensions

Each executive Director during the year was a member of the Company's pension scheme, which covers most senior employees of the Company.

	Increase in accrued pension £000	Accrued pension at 31 Dec 2005 £000	Transfer value at 31 Dec 2005 £000	Increase in transfer value £000	Transfer value at 31 Dec 2004 £000
J W Newman	10	227	2,857	608	2,222
N A Rodgers	18	57	561	194	355
R W Weaver	5	76	849	166	671
J W Armstrong	4	52	696	171	516

Notes

- Members of the scheme have the option to pay additional voluntary contributions; neither these contributions nor the resulting benefits are included in the above table.
- The increase in accrued pension during the year excludes any increases for inflation.
- The increase in transfer value during the year is net of employee contributions made to the scheme.
- Each executive Director has a normal retirement date of his 65th birthday.
- No actuarial reduction is made in respect of early retirement between the ages of 60 and 65.
- Accrued pension is that which would be paid annually on retirement at normal retirement date based on service and final pensionable salary to 31 December 2005.
- Transfer values are calculated in accordance with 'Retirement Benefit Schemes – Transfer Values (GN 11)' published by the Institute of Actuaries and the Faculty of Actuaries and dated 4 August 2003.
- Pensions in payment accrued between 1 January 1989 and 5 April 2005 for J W Newman and J W Armstrong, and in total for R W Weaver and N A Rodgers, are increased annually in line with the annual rise in the All Items Index of Retail Prices subject to a maximum of 5 per cent per annum. Post 5 April 2005, increases are subject to a maximum of 2.5 per cent per annum.
- In the event of the death of an executive Director, a pension equal to one half of the Director's pension will become payable to a surviving spouse.

Directors' share options

Options set out below granted under the 1994 Executive Share Option Scheme (Approved) are marked (1), the 1996 Executive Share Option Scheme (Unapproved) are marked (2) and the 2004 Company Share Option Plan (Unapproved) are marked (3):

No options were exercised in the period or are exercisable at the date of this report.

As Non-executive Directors T H Reed, D E A Crowe, Sir Laurence Magnus and D S Crowther have not been granted share options.

	1 January 2005	Granted in the period	Lapsed in the period	31 December 2005	Exercise price pence	Exercise period
J W Newman	62,332		62,332	0 ⁽¹⁾	241.0	
	47,100			47,100 ⁽²⁾	353.0	Jun 1999 – Jun 2006
	87,743			87,743 ⁽²⁾	359.0	Apr 2000 – Apr 2007
	19,825			19,825 ⁽²⁾	300.0	Mar 2001 – Mar 2008
	147,058			147,058 ⁽²⁾	136.0	Sep 2002 – Sep 2009
	248,192			248,192 ⁽²⁾	166.0	May 2004 – May 2011
	128,593			128,593 ⁽²⁾	165.0	Apr 2005 – Apr 2012
	273,180			273,180 ⁽²⁾	80.0	Mar 2006 – Mar 2013
	155,241			155,241 ⁽³⁾	145.0	May 2007 – May 2014
		112,823		112,823 ⁽³⁾	205.5	Apr 2008 – Apr 2015
	1,169,264	112,823	62,332	1,219,755		
N A Rodgers	13,050			13,050 ⁽²⁾	353.0	Jun 1999 – Jun 2006
	11,142			11,142 ⁽²⁾	359.0	Apr 2000 – Apr 2007
	2,852			2,852 ⁽¹⁾	300.0	Mar 2001 – Mar 2008
	10,570			10,570 ⁽²⁾	300.0	Mar 2001 – Mar 2008
	23,662			23,662 ⁽²⁾	177.5	Mar 2002 – Mar 2009
	45,901			45,901 ⁽²⁾	91.5	Mar 2003 – Mar 2010
	6,550			6,550 ⁽¹⁾	163.0	Apr 2004 – Apr 2011
	20,450			20,450 ⁽²⁾	163.0	Apr 2004 – Apr 2011
	6,424			6,424 ⁽¹⁾	165.0	Apr 2005 – Apr 2012
	21,091			21,091 ⁽²⁾	165.0	Apr 2005 – Apr 2012
	58,500			58,500 ⁽²⁾	80.0	Mar 2006 – Mar 2013
	84,137			84,137 ⁽³⁾	145.0	May 2007 – May 2014
		59,367		59,367 ⁽³⁾	205.5	Apr 2008 – Apr 2015
	304,329	59,367		363,696		

	1 January 2005	Granted in the period	Lapsed in the period	31 December 2005	Exercise price pence	Exercise period
R W Weaver	6,198		6,198	0 ⁽¹⁾	241.0	
	17,150			17,150 ⁽²⁾	353.0	Jun 1999 – Jun 2006
	26,183			26,183 ⁽²⁾	359.0	Apr 2000 – Apr 2007
	20,000			20,000 ⁽²⁾	300.0	Mar 2001 – Mar 2008
	147,058			147,058 ⁽²⁾	136.0	Sep 2002 – Sep 2009
	109,289			109,289 ⁽²⁾	91.5	Mar 2003 – Mar 2010
	49,638			49,638 ⁽²⁾	166.0	May 2004 – May 2011
	9,090			9,090 ⁽¹⁾	165.0	Apr 2005 – Apr 2012
	43,845			43,845 ⁽²⁾	165.0	Apr 2005 – Apr 2012
	112,455			112,455 ⁽²⁾	80.0	Mar 2006 – Mar 2013
	63,904			63,904 ⁽³⁾	145.0	May 2007 – May 2014
			48,248		48,248 ⁽³⁾	205.5
	604,810	48,248	6,198	646,860		
J W Armstrong	4,285		4,285	0 ⁽¹⁾	241.0	
	3,250			3,250 ⁽²⁾	353.0	Jun 1999 – Jun 2006
	2,786			2,786 ⁽²⁾	359.0	Apr 2000 – Apr 2007
	5,033			5,033 ⁽²⁾	300.0	Mar 2001 – Mar 2008
	73,529			73,529 ⁽²⁾	136.0	Sep 2002 – Sep 2009
	109,289			109,289 ⁽²⁾	91.5	Mar 2003 – Mar 2010
	38,253			38,253 ⁽²⁾	166.0	May 2004 – May 2011
	11,818			11,818 ⁽¹⁾	165.0	Apr 2005 – Apr 2012
	28,975			28,975 ⁽²⁾	165.0	Apr 2005 – Apr 2012
	86,662			86,662 ⁽²⁾	80.0	Mar 2006 – Mar 2013
	49,247			49,247 ⁽³⁾	145.0	May 2007 – May 2014
			37,181		37,181 ⁽³⁾	205.5
	413,127	37,181	4,285	446,023		

The closing middle market prices for an ordinary share of 25p of the Company on 31 December 2005 and 2004 as derived from the Stock Exchange Daily Official List were 147.0p and 193.0p respectively. During the year the middle market price of TT electronics plc ordinary shares ranged between 137.0p and 216.0p.

Approved by the Board on 27 March 2006 and signed on its behalf by:

M G Leigh
Secretary

Report of the Independent Auditors to the members of TT electronics plc

We have audited the consolidated financial statements of TT electronics plc for the year ended 31 December 2005 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and notes 1 to 37. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Company financial statements of TT electronics plc for the year ended 31 December 2005 and the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual report and the consolidated financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' report is not consistent with the consolidated financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Directors' report on corporate governance reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Directors' report, the Chairman's statement, the Business review and the Directors' report on corporate governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Grant Thornton UK LLP

Registered Auditors, Chartered Accountants
London, 27 March 2006

Consolidated income statement

for the year ended 31 December 2005

	Note	Before exceptional items £million	Exceptional items* £million	2005 Total £million	2004 Total £million
Continuing operations					
Revenue	1	565.3	–	565.3	573.1
Cost of sales		(460.3)	–	(460.3)	(459.9)
Gross profit		105.0	–	105.0	113.2
Distribution costs		(40.5)	–	(40.5)	(41.0)
Administrative expenses		(35.2)	(9.8)	(45.0)	(35.3)
Other operating expenses		(1.0)	–	(1.0)	(3.8)
Other operating income		1.6	11.9	13.5	1.6
Operating profit	1	29.9	2.1	32.0	34.7
Finance income	2	12.0	–	12.0	10.8
Finance costs	2	(17.2)	–	(17.2)	(15.5)
Profit before taxation	1	24.7	2.1	26.8	30.0
Taxation	5	(8.1)	(0.4)	(8.5)	(9.9)
Profit for the year from continuing activities		16.6	1.7	18.3	20.1
Discontinued operation					
Loss for the year from discontinued operation	6			(5.3)	(1.7)
Profit for the year attributable to shareholders				13.0	18.4

*Details of exceptional operating items are given in note 4. There were no exceptional items in 2004.

Earnings per share	8				
From continuing and discontinued operations					
– basic				8.4p	11.9p
– diluted				8.3p	11.8p
From continuing operations					
– basic				11.8p	13.0p
– diluted				11.7p	12.9p

Consolidated balance sheet

at 31 December 2005

	Note	2005 £million	2004 £million
Assets			
Non-current assets			
Property, plant and equipment	10	118.0	136.3
Goodwill	11	52.5	42.4
Other intangible assets	12	15.7	17.4
Financial assets – investment	13	–	1.0
Deferred tax assets	23	30.0	23.2
Total non-current assets		216.2	220.3
Current assets			
Property		–	0.1
Inventories	14	93.9	99.6
Trade and other receivables	15	95.1	103.8
Financial assets	15	–	0.3
Cash and cash equivalents	15	24.0	5.5
Total current assets		213.0	209.3
Total assets		429.2	429.6
Liabilities			
Current liabilities			
Short-term borrowings	21	4.0	17.1
Financial liabilities	22	0.4	–
Trade and other payables	26	94.8	90.1
Current tax payable		4.9	7.0
Provision for liabilities	25	1.6	2.1
Total current liabilities		105.7	116.3
Non-current liabilities			
Long-term borrowings	21	67.1	55.7
Deferred tax provision	23	6.1	8.7
Pensions and other post employment benefits	32	90.2	70.9
Provision for liabilities	25	1.0	1.6
Other non-current liabilities	26	7.4	9.7
Total non-current liabilities		171.8	146.6
Total liabilities		277.5	262.9
Net assets		151.7	166.7
Equity			
Share capital	16	38.7	38.7
Share premium account	17	–	56.0
Capital redemption reserve	17	–	4.4
Merger reserve	17	–	23.0
Share options	17	0.5	0.2
Hedging and translation reserve	18	3.5	(2.9)
Retained earnings	19	107.0	44.4
Minority interests		2.0	2.9
Total equity	20	151.7	166.7

Approved by the Directors on 27 March 2006 and signed on their behalf by:

J W Newman Director

R W Weaver Director

Consolidated statement of recognised income and expense

for the year ended 31 December 2005

	2005 £million	2004 £million
Profit for the year	13.0	18.4
Exchange differences on net foreign currency investments	5.7	(2.7)
Income tax on foreign currency exchange differences	0.7	(0.2)
Actuarial net loss on defined benefit pension schemes	(26.0)	(10.2)
Deferred tax on actuarial loss	7.8	2.5
Total recognised income and expense for the year attributable to shareholders	1.2	7.8

Consolidated cash flow statement

for the year ended 31 December 2005

	Note	2005 £million	2004 £million
Operating activities			
Profit for the year		13.0	18.4
Adjustments for:			
Finance costs		6.1	5.5
Taxation		5.2	9.1
Depreciation of property, plant and equipment		26.8	29.4
Amortisation of intangible assets		10.4	9.2
Share based payment expense		0.3	0.1
Gain on disposal of property, plant and equipment		(12.0)	(2.8)
Gain on disposal of subsidiary		(4.1)	–
Other non cash items		(0.2)	2.9
Additional payments to pension funds		(9.3)	(3.1)
Operating cash flow before movements in working capital		36.2	68.7
Decrease in property assets		0.1	1.7
Decrease in financial derivatives		0.7	0.8
Decrease/(increase) in inventories		5.1	(1.1)
Decrease/(increase) in receivables		12.1	(4.0)
Increase in payables		0.1	5.4
Exchange differences		4.0	(1.8)
Cash generated from operations		58.3	69.7
Tax paid		(8.7)	(15.8)
Net cash from operating activities		49.6	53.9
Cash flows from investing activities:			
Purchase of property, plant and equipment		(15.6)	(24.6)
Proceeds from sale of property, plant and equipment and grants received		21.3	8.2
Development expenditure		(8.7)	(10.8)
Acquisition of subsidiary net of cash acquired	28	(10.1)	(1.3)
Net cash proceeds from sale of subsidiaries	27	7.8	–
Loan repayment		–	6.0
Net cash used in investing activities		(5.3)	(22.5)
Cash flows from financing activities:			
Interest paid (net)		(3.4)	(3.5)
Net changes in long-term borrowings and finance lease liabilities		7.2	4.2
Dividends paid		(15.6)	(15.6)
Net cash used in financing activities		(11.8)	(14.9)
Net increase in cash and cash equivalents		32.5	16.5
Cash and cash equivalents at beginning of period		(9.6)	(27.1)
Exchange difference		(0.6)	1.0
Cash and cash equivalents at end of period		22.3	(9.6)
Cash and cash equivalents comprise:			
Cash and cash equivalents	15	24.0	5.5
Bank overdrafts	21	(1.7)	(15.1)
		22.3	(9.6)

Accounting policies for the consolidated financial statements

The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union. Comparatives have been restated. Reconciliations of shareholders' equity under UK Generally Accepted Accounting Practice (GAAP) to that under IFRS at 1 January 2004 and 31 December 2004 and of the profit for the year to 31 December 2004 under UK GAAP to that under IFRS are given in notes 34 to 37. Further details of the changes were issued to shareholders in a circular dated 22 July 2005.

The financial statements have been prepared under the historical cost convention modified by the revaluation of financial assets and derivatives held at fair value and by the revaluation at the transition date of certain property, plant and equipment. The revalued amount for property, plant and equipment is accounted for thereafter as deemed cost.

Basis of consolidation

The group's financial statements consolidate the financial statements of TT electronics plc and all its subsidiaries. Subsidiaries are consolidated from the date on which control transfers to the group and are included until the date on which the group ceases to control them. Transactions between group companies are eliminated on consolidation.

Revenue recognition

Revenue is the invoiced value of goods and services supplied to external customers excluding value added tax and other sales related taxes. Transactions are recorded as sales when the delivery of products or performance of services takes place in accordance with the contract terms of sale.

Goodwill

Goodwill arising on the acquisition of a business, representing the difference between the cost of acquisition and the fair value of the identifiable net assets acquired, is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. The net book value of goodwill at the date of transition to IFRS has been treated as deemed cost. Prior to 1 January 2004, goodwill was amortised over its expected useful economic life up to a maximum of 20 years. Goodwill on acquisitions made before 1 January 1998 was charged directly to reserves in the year in which it arose. On the subsequent disposal or discontinuance of a previously acquired business, the relevant goodwill is dealt with in the income statement except for the goodwill already charged to reserves.

Other intangible assets

Intangible assets acquired as part of a business combination are stated in the balance sheet at their fair value at the date of acquisition less accumulated amortisation. Internally generated intangible assets, principally product development costs, are stated in the balance sheet at cost less accumulated amortisation. The amortisation rates for intangible assets are:

Acquired patents and licences – up to 10 years
Development projects – up to 3 years

Amortisation is on a straight line basis.

The carrying values of intangible assets are reviewed for impairment when there is an indication that they may be impaired.

Foreign currencies

Assets and liabilities of overseas subsidiaries are translated into sterling at the rate of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries are translated into sterling using the average rate of exchange for the year. Exchange movements on the restatement of the net assets of overseas subsidiaries, foreign currency loans held for the purpose of financing overseas investments, and the adjustment between the income statement translated at the average rate and the closing rate are taken directly to the translation reserve and reported in the statement of recognised income and expense. All other exchange differences are dealt with through the consolidated income statement. On disposal of an overseas subsidiary any cumulative exchange movements relating to that subsidiary held in the translation reserve are transferred to the consolidated income statement.

The group uses forward currency contracts in order to hedge its exposure to foreign exchange risks.

Property, plant and equipment

Property, plant and equipment are stated at cost less a provision for depreciation. Depreciation is calculated so as to write-off the cost less estimated residual value of the assets in equal instalments over their expected useful lives. No depreciation is provided on freehold land. Depreciation is provided on other assets at the following rates:

Freehold buildings	– 2%
Leasehold buildings	– 2% (or over the period of the lease if less than 50 years)
Plant, equipment and vehicles	– 10 to 33%

The carrying values of property, plant and equipment are reviewed for impairment when there is an indication that they may be impaired.

Inventories

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

Deferred taxation

Deferred taxation is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised. No provision is made for deferred tax which would become payable on the distribution of retained profits by overseas subsidiaries unless there is an intention to distribute such profits. Deferred tax is measured using the tax rates expected to apply when the asset is realised or the liability settled based on tax rates enacted or substantially enacted by the balance sheet date.

Leases

Assets acquired under finance leases which confer substantially all the risks and rewards of ownership of an asset are capitalised within property, plant and equipment and the outstanding rental instalments, net of interest, are shown in borrowings. Assets held under finance leases are depreciated over the shorter of the lease terms and the expected useful lives of the assets.

Payments on operating leases are charged to the income statement on a straight line basis over the lease term.

Financial assets:

Investments

Investments are stated in the balance sheet at fair value and classified as either financial assets at fair value through profit or loss or as available for sale assets. Changes in the fair value of financial assets through profit or loss are reported through the income statement. Changes in the fair value of available for sale financial assets are recognised in reserves until the investment is disposed of or impaired, at which point the cumulative gain or loss previously recognised in reserves is transferred to the income statement.

Trade and other receivables

Trade and other receivables are carried at the invoiced or contractually agreed amount less any required allowances for uncollectable amounts.

Financial derivatives

Derivative financial instruments are measured at fair value. The group uses forward foreign exchange contracts and interest rate swaps to manage the relevant exposures. These derivative financial instruments are classified as fair value through profit or loss and all changes in fair value are recognised in the consolidated income statement.

The group uses forward contracts for key raw materials to minimise the risk of the effect of fluctuations in their cost. These forward contracts are accounted for in the accounting period in which they mature.

Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, demand deposits and short-term highly liquid investments that are easily convertible into known amounts of cash.

Financial liabilities:

Hedge accounting

The group applies hedge accounting to reduce its exposure to exchange rate and other financial risks. The application of the hedge is documented before hedge accounting commences and is regularly reviewed for effectiveness. The net gains or losses relating to hedged items are dealt with in the Statement of recognised income and expense.

Bank borrowings

Bank borrowings are carried at the amounts payable at the balance sheet date. The group uses borrowings in overseas currencies to hedge its exchange rate exposure on overseas assets. All borrowing costs are expensed.

Trade payables

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

Employee benefits

The group operates defined benefit post retirement benefit plans and defined contribution pension plans.

The liability recognised in the balance sheet for defined benefit plans is the present value of scheme liabilities less the fair value of scheme assets. The operating and financing costs of defined benefit plans are recognised separately in the income statement. Operating costs comprise the current service cost, any gains or losses on settlement or curtailments, and past service costs where benefits have vested. Finance items comprise the interest on plan liabilities and the expected return on plan assets. Actuarial gains or losses comprising differences between the actual and expected return on plan assets, changes in plan liabilities due to experience and changes in actuarial assumptions are recognised immediately in the Statement of recognised income and expense.

Pension costs for the defined contribution plans represent the amount of contributions payable in respect of the accounting period.

Government grants

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

Other grants are credited to the income statement over the period of the project to which they relate.

Research and development

Research costs are written-off as incurred. Development costs incurred in the development of new or substantially improved products and processes are capitalised as intangible assets if it is probable that the expenditure will generate future economic benefits and can be measured reliably.

Share based payments

The fair value at the date of grant of share based remuneration, principally share options, is calculated using a binomial pricing model and charged to the income statement on a straight line basis over the vesting period of the award. The charge to the income statement takes account of the estimated number of shares that will vest. All share based remuneration is equity settled.

Segmental reporting

The group's primary reporting format is business segments and its secondary format is geographical segments.

Critical judgements in applying the entity's accounting policies

The group has recognised £12.5 million as the proceeds already received on sale of the land at Gravesend following the closure of that business. There are further proceeds which will become payable following the onward sale by the purchaser which are not virtually certain but are considered to be highly likely. The further proceeds will be accounted for as profit on sale of assets when it becomes virtually certain that they will be received.

Key sources of estimation uncertainty

i) Recoverability of internally generated intangible assets

The recoverability of capitalised development costs is dependent on assessments of the future commercial viability of the relevant products and processes. The carrying amount of £13.2 million at 31 December 2005 is considered to be fairly stated.

ii) Impairment of goodwill

The carrying amount of goodwill is £52.5 million. This has been tested for impairment by estimating the value in use of the cash generating units to which it has been allocated. The value in use is estimated by discounting future cash flows. This gives rise to uncertainty in respect of the cash flows themselves and the discount factors applied.

iii) Defined benefit pension obligations

The defined benefit pension obligations are calculated using a number of assumptions, such as future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate. The pension deficit of £90.2 million at 31 December 2005 has been calculated using the assumptions set out in note 32. A deferred tax asset of £27.1 million has been recognised at 31 December 2005 in respect of this pension fund deficit. The recoverability of this asset depends upon sufficient UK taxable profits being generated over the long-term period during which cash contributions will be made to reduce the pension deficit.

Notes to the consolidated financial statements

1. Segmental reporting

The group's primary reporting segments are the following business sectors:

Electronic

Sensors and electronic systems – manufactured for major automotive and other customers.

Electronic components – resistors, microcircuits, potentiometers and trimmers, ferrites and toroids.

Electronic manufacturing services – PCB assemblies, finished box build, backplane assemblies.

Electrical

Power systems – standby and continuous power generation, uninterruptible power supply units.

Power transmission – electrical cables, connectors and harnesses, insulation technology, power transmission accessories.

	Revenue		Sector result	
	2005 £million	2004 £million	2005 £million	2004 £million
Electronic				
– sensors and electronic systems	195.0	191.5	9.1	18.2
– electronic components	129.6	137.1	8.7	8.1
– electronic manufacturing services	60.3	50.7	2.0	1.6
Total electronic	384.9	379.3	19.8	27.9
Electrical				
– power systems	50.4	56.0	4.6	3.8
– power transmission	130.0	137.8	5.5	3.0
Total electrical	180.4	193.8	10.1	6.8
Total	565.3	573.1	29.9	34.7
Exceptional operating items (note 4)			2.1	–
Operating profit – total			32.0	34.7
Finance income			12.0	10.8
Finance costs			(17.2)	(15.5)
Profit before tax			26.8	30.0
Income tax expense			(8.5)	(9.9)
Profit for the year from continuing operations			18.3	20.1

There are no significant sales between sectors.

	Assets		Liabilities		Total capital employed	
	2005 £million	2004 £million	2005 £million	2004 £million	2005 £million	2004 £million
Electronic						
– sensors and electronic systems	124.1	130.7	57.7	36.6	66.4	94.1
– electronic components	123.3	124.5	40.9	41.0	82.4	83.5
– electronic manufacturing services	29.8	15.8	20.4	21.2	9.4	(5.4)
Total electronic	277.2	271.0	119.0	98.8	158.2	172.2
Electrical						
– power systems	22.8	24.0	21.8	21.3	1.0	2.7
– power transmission	73.3	95.9	34.8	38.2	38.5	57.7
Total electrical	96.1	119.9	56.6	59.5	39.5	60.4
Sector assets and liabilities – continuing operations	373.3	390.9	175.6	158.3	197.7	232.6
Discontinued operation	1.9	10.0	19.3	16.1	(17.4)	(6.1)
Unallocated assets and liabilities	54.0	28.7	82.6	88.5	(28.6)	(59.8)
Total	429.2	429.6	277.5	262.9	151.7	166.7

1. Segmental reporting continued

	Capital additions		Depreciation and amortisation	
	2005 £million	2004 £million	2005 £million	2004 £million
Electronic				
– sensors and electronic systems	10.8	21.1	17.5	15.9
– electronic components	6.9	6.5	10.6	11.2
– electronic manufacturing services	1.9	1.1	2.0	1.3
Total electronics	19.6	28.7	30.1	28.4
Electrical				
– power systems	1.4	1.2	1.1	1.2
– power transmission	2.9	4.7	5.1	7.3
Total electrical	4.3	5.9	6.2	8.5
Total – continuing operations	23.9	34.6	36.3	36.9

Geographical segments

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets analysed by the geographical area in which the assets are located.

	Capital additions		Carrying amount of segment assets	
	2005 £million	2004 £million	2005 £million	2004 £million
United Kingdom	7.3	16.5	140.7	179.6
Rest of Europe	10.4	12.4	71.9	78.3
North America	5.1	4.9	128.9	113.9
Rest of the World	1.1	0.8	31.8	19.1
Total – continuing operations	23.9	34.6	373.3	390.9

The group operates globally. Sales by geographical destination are:

	Continuing operations		Discontinued operations		Total	
	2005 £million	2004 £million	2005 £million	2004 £million	2005 £million	2004 £million
United Kingdom	161.1	176.9	1.9	3.0	163.0	179.9
Rest of Europe	199.9	208.8	15.5	18.7	215.4	227.5
North America	131.7	116.1	0.6	1.6	132.3	117.7
Rest of the World	72.6	71.3	0.1	1.0	72.7	72.3
	565.3	573.1	18.1	24.3	583.4	597.4

2. Finance costs – net

	Continuing operations		Discontinued operations		Total	
	2005 £million	2004 £million	2005 £million	2004 £million	2005 £million	2004 £million
Interest receivable	0.6	0.2	–	–	0.6	0.2
Expected return on pension scheme assets	11.4	10.6	1.4	1.2	12.8	11.8
Finance income	12.0	10.8	1.4	1.2	13.4	12.0
Interest on bank overdrafts and loans	3.4	2.6	0.4	0.4	3.8	3.0
Interest on finance leases	0.3	0.3	0.1	0.1	0.4	0.4
Unwinding of the discount on pension scheme liabilities	13.5	12.6	1.8	1.5	15.3	14.1
Finance costs	17.2	15.5	2.3	2.0	19.5	17.5
Finance costs – net	5.2	4.7	0.9	0.8	6.1	5.5

3. Profit for the year

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

	Continuing operations		Discontinued operations		Total	
	2005 £million	2004 £million	2005 £million	2004 £million	2005 £million	2004 £million
Depreciation of property, plant and equipment	25.8	27.7	1.0	1.7	26.8	29.4
Amortisation of intangible assets included in cost of sales	10.4	9.2	–	–	10.4	9.2
Net foreign exchange gains	0.4	0.9	0.1	–	0.5	0.9
Cost of inventories recognised as an expense	460.3	459.9	19.5	23.3	479.8	483.2
Employee benefits expense	157.5	157.2	7.3	8.7	164.8	165.9
Fees to group Auditors						
– statutory audit	0.6	0.5	–	–	0.6	0.5
– other services	0.1	0.1	–	–	0.1	0.1
– tax compliance services	0.1	0.1	–	–	0.1	0.1
Fees to other Auditors						
– statutory audit of subsidiaries	0.3	0.3	–	–	0.3	0.3
– tax compliance and tax advisory services	0.5	0.4	–	–	0.5	0.4
Government grants credited	(0.9)	(1.1)	–	–	(0.9)	(1.1)

4. Exceptional items

	2005 £million	2004 £million
Profit on sale of the Gravesend site	7.8	–
Closure costs of Gravesend cables operation	(3.1)	–
Net gain on closure of Gravesend cables operation	4.7	–
Profit on sale of Houchin Aerospace Limited	4.1	–
Closure costs of AB Automotive (France) SAS	(6.7)	–
	2.1	–

The profit on sale of the Gravesend site has been calculated based on initial sale proceeds of £12.5 million; further proceeds may be received based on the development of the site. Closure costs of the Gravesend cables operation comprise £1.6 million of redundancy costs and £1.5 million of other costs.

Houchin Aerospace Limited, a wholly owned subsidiary, was sold on 1 August 2005. See note 27 for further details.

AB Automotive (France) SAS is to close in 2006. Closure costs committed to at 31 December 2005 comprise £3.5 million of redundancy costs, £0.9 million for plant and equipment write downs, £1.1 million for the loss on onerous contracts and £1.2 million for other costs.

Exceptional items are analysed by sector:

	2005 £million	2004 £million
Sensors and electronic systems	(6.7)	–
Power systems	4.1	–
Power transmission	4.7	–
	2.1	–

5. Income tax expense

	Continuing operations		Discontinued operation		Total	
	2005 £million	2004 £million	2005 £million	2004 £million	2005 £million	2004 £million
Current tax	11.2	9.5	(4.1)	(0.3)	7.1	9.2
Deferred tax (note 23)	(2.7)	0.4	0.8	(0.5)	(1.9)	(0.1)
Income tax expense for the year	8.5	9.9	(3.3)	(0.8)	5.2	9.1

UK tax is calculated at 30 per cent (2004: 30 per cent) of taxable profit. Overseas tax is calculated at the rates ruling in the relevant countries. The total tax charge for the year represents an effective rate of 29 per cent (2004: 33 per cent). Tax relief in respect of exceptional operating items was £0.4 million (2004: £nil).

The tax charge is explained as follows:

	2005 £million	2004 £million
Profit before taxation		
Continuing operations	26.8	30.0
Discontinued operation	(8.6)	(2.5)
	18.2	27.5
Tax at the UK income tax rate	5.5	8.3
Tax rates of non UK subsidiaries	0.6	0.8
Utilisation of losses not previously recognised	(1.7)	(2.3)
Losses for which no deferred tax asset is recognised	2.3	0.6
Expenses not deductible for tax purposes	0.2	1.0
Items not subject to tax	(1.2)	1.1
Other	(0.5)	(0.4)
Income tax expense	5.2	9.1

6. Discontinued operation

On 9 September 2005 the group announced the discontinuance of manufacturing at Prestwick Circuits Limited, a printed circuit board manufacturer.

The result for the year for Prestwick Circuits Limited was:

	2005 £million	2004 £million
Revenue	18.1	24.3
Cost of sales	(19.5)	(23.3)
Distribution costs	(1.0)	(1.8)
Administrative expenses	(2.8)	(0.9)
Finance costs – net	(0.9)	(0.8)
Loss before taxation from trading	(6.1)	(2.5)
Redundancy costs	(0.8)	–
Other costs	(1.7)	–
Loss for the year before taxation	(8.6)	(2.5)
Income tax credit	3.3	0.8
Loss for the year	(5.3)	(1.7)

The income tax credit of £3.3 million includes £nil million in respect of the disposal of assets.

During the year Prestwick Circuits Limited received £0.2 million (2004: £0.9 million) from the group's net operating cash flows, paid £0.2 million (2004: £0.8 million) in respect of investing activities and paid £0.9 million (2004: £0.8 million) in respect of financing activities.

7. Dividends

The following dividends have been paid in the year:

	2005 pence per share	2005 £million	2004 pence per share	2004 £million
Final dividend for prior year	6.36	9.9	6.36	9.9
Interim dividend for current year	3.69	5.7	3.69	5.7
	10.05	15.6	10.05	15.6

The Directors propose that a final dividend of 6.36p will be paid to shareholders on 26 May 2006. This dividend is subject to the approval of shareholders at the Annual General Meeting and has not been included as a liability in these accounts. The total estimated cost of the dividend to be paid is £9.9 million.

8. Earnings per share

From continuing and discontinued operations:

	2005 pence per share	2004 pence per share
Basic	8.4	11.9
Diluted	8.3	11.8

Earnings per share has been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the year. The numbers used in calculating basic and diluted earnings per share are reconciled below:

	2005 £million	2004 £million
Profit for the year attributable to shareholders:		
Earnings basic and diluted	13.0	18.4
Weighted average number of shares in issue		
	2005 million	2004 million
Basic	154.8	154.8
Adjustment for share options	1.4	1.5
Diluted	156.2	156.3
	2005 pence per share	2004 pence per share
From continuing operations:		
Basic	11.8	13.0
Diluted	11.7	12.9
	2005 £million	2004 £million
Profit for the year attributable to shareholders	13.0	18.4
Add loss for the year from discontinued operation	5.3	1.7
Earnings from continuing operations	18.3	20.1

The denominators are the same as shown above for both basic and diluted earnings per share.

From discontinued operation:

Basic loss per share from discontinued operation is 3.4p (2004: 1.1p) and diluted loss per share is 3.4p (2004: 1.1p) based on the loss for the year of £5.3 million (2004: £1.7 million) and the denominators detailed above for both basic and diluted earnings per share.

9. Employees

The average number of employees (including Directors) during the year was:

	2005 number	2004 number
By function		
Production	7,216	7,460
Sales and distribution	682	719
Administration	532	536
	8,430	8,715
By sector		
Electronic		
– sensors and electronic systems	2,804	2,841
– electronic components	2,597	2,752
– electronic manufacturing services	739	465
Total electronic	6,140	6,058
Electrical		
– power systems	569	611
– power transmission	1,464	1,688
Total electrical	2,033	2,299
Total continuing operations	8,173	8,357
Discontinued operation	257	358
Total	8,430	8,715

The aggregate emoluments including those of Directors for the year were:

	2005 £million	2004 £million
Wages and salaries	138.6	139.7
Employers' social security charges	19.8	19.5
Employers' pension costs	6.4	6.7
	164.8	165.9

Remuneration in respect of the Directors was as follows:

	2005 £million	2004 £million
Emoluments	1.2	1.6

Further details of individual Directors' remuneration, pension benefits and share options are shown in the Directors' remuneration report on pages 28 to 32.

10. Property, plant and equipment

	Land and buildings £million	Plant and equipment £million	Total £million
Cost			
At 1 January 2004	68.4	326.5	394.9
Additions	0.8	23.8	24.6
Disposals	(3.5)	(7.7)	(11.2)
Exchange translation differences	(0.9)	(4.2)	(5.1)
At 1 January 2005	64.8	338.4	403.2
Additions	3.2	12.4	15.6
Acquisition of subsidiaries	0.3	2.3	2.6
Disposals	(8.0)	(19.8)	(27.8)
Disposal of subsidiary	(2.8)	(1.8)	(4.6)
Exchange translation differences	1.4	7.1	8.5
At 31 December 2005	58.9	338.6	397.5
Accumulated depreciation and impairment			
At 1 January 2004	11.2	237.4	248.6
Depreciation charge for the year	2.0	27.4	29.4
Eliminated on disposals	(0.6)	(7.2)	(7.8)
Exchange translation differences	(0.5)	(2.8)	(3.3)
At 1 January 2005	12.1	254.8	266.9
Depreciation charge for the year	1.9	24.9	26.8
Eliminated on disposals	(2.0)	(17.3)	(19.3)
Acquisition of subsidiaries	0.1	1.2	1.3
Disposal of subsidiary	(0.5)	(1.5)	(2.0)
Exchange translation differences	0.6	5.2	5.8
At 31 December 2005	12.2	267.3	279.5
Carrying amount:			
At 31 December 2005	46.7	71.3	118.0
At 31 December 2004	52.7	83.6	136.3

The following rates are used for the depreciation of property, plant and equipment:

Freehold property	2%
Leasehold land and buildings	2% (or over the period of the lease if less than 50 years)
Plant and equipment	10 to 33%

The carrying amount of land and buildings includes £3.0 million (2004: £4.0 million) in respect of assets held under finance leases.

Included in property, plant and equipment are assets with a carrying amount of £1.7 million (2004: £nil) which are no longer used in the business and are now available for sale.

11. Goodwill

	£million
Cost	
At 1 January 2004	44.9
Acquisition of subsidiary	0.7
Reduction in Optek Technology goodwill	(0.3)
Exchange translation differences	(2.9)
At 1 January 2005	42.4
Acquisition of subsidiaries (note 28)	5.1
Exchange translation differences	5.0
At 31 December 2005	52.5

Goodwill is primarily allocated to the following cash generating units:

	£million
BI Technologies	26.5
Optek Technology	20.2
TT electronic integrated systems	5.1

All of the above businesses are in the electronic sector.

Goodwill has been tested for impairment by assessing the value in use of the relevant cash generating units. The value in use calculations were based on projected cash flows for the ten years 2006-2015. Budgeted cash flows for 2006 were increased by 3 per cent per annum for the first four years and assumed to be flat thereafter. Projected cash flows, pre-tax, were discounted at 8 per cent per annum to calculate their net present value. As a result of these tests, no impairment provisions are considered necessary.

12. Other intangible assets

	Development costs £million	Patents and licences £million	Total £million
Cost			
At 1 January 2004	26.3	–	26.3
Additions	10.8	–	10.8
Retirements	(9.6)	–	(9.6)
Acquisition	–	3.0	3.0
At 1 January 2005	27.5	3.0	30.5
Additions	8.7	–	8.7
Retirements	(10.6)	–	(10.6)
At 31 December 2005	25.6	3.0	28.6
Amortisation			
At 1 January 2004	13.5	–	13.5
Charge for the year	9.0	0.2	9.2
Retirements	(9.6)	–	(9.6)
At 1 January 2005	12.9	0.2	13.1
Charge for the year	10.1	0.3	10.4
Retirements	(10.6)	–	(10.6)
At 31 December 2005	12.4	0.5	12.9
Carrying amount			
At 31 December 2005	13.2	2.5	15.7
At 31 December 2004	14.6	2.8	17.4

Development costs are amortised over up to three years. Patents and licences are amortised over ten years.

13. Financial assets – investment

	2005 £million	2004 £million
Investment	–	1.0

TT electronics plc holds 24.4 per cent of the equity of Pressac plc which was delisted from the London Stock Exchange during 2005. The group does not have significant influence over the financial or operating policies of Pressac plc and designates its holding as a financial asset at fair value through profit or loss.

14. Inventories

	2005 £million	2004 £million
Raw materials	40.0	35.5
Work in progress	20.2	27.6
Finished goods	33.7	36.5
	93.9	99.6

Inventories are stated after deduction of a provision for slow moving and obsolete items of £16.8 million (2004: £19.4 million).

15. Other financial assets

	2005 £million	2004 £million
Trade and other receivables		
Trade debtors	77.9	90.0
Prepayments	6.8	6.4
Other debtors	8.4	5.4
Loan to Newship Limited	2.0	2.0
	95.1	103.8

Trade debtors are stated net of an allowance for estimated irrecoverable amounts of £3.9 million (2004: £2.5 million).

The loan to Newship Limited is repayable in May 2008 and bears interest at 1 per cent above base rate.

The carrying amount of trade and other receivables approximates to their fair value.

	2005 £million	2004 £million
Financial derivatives	–	0.3

Financial derivatives are the market value of forward currency contracts, interest rate swaps and a copper forward contract, see note 22.

	2005 £million	2004 £million
Cash and cash equivalents	24.0	5.5

Cash and cash equivalents comprise bank balances and short-term bank deposits. The carrying amount approximates to fair value.

The credit risk on cash, cash equivalents and financial instruments is negligible because the counterparties are banks with high credit ratings. The group's main credit risk relates to its trade debtors. The carrying amount for trade debtors is net of provisions for doubtful receivables.

16. Share capital

	2005 £million	2004 £million
Authorised		
226,000,000 (2004: 226,000,000) ordinary shares of 25p each	56.5	56.5
Issued and fully paid		
154,798,103 (2004: 154,798,103) ordinary shares of 25p each	38.7	38.7

The ordinary shares of 25p each are equity share capital.

Following shareholder approval at the Extraordinary General Meeting held on 20 October 2005, the Company increased its distributable reserves by cancelling the Company's share premium account and capital redemption reserve, and capitalising its merger relief reserve. This had the following effect on the Company's share capital:

On 20 October 2005, the authorised share capital was increased by £70,292,570 to £126,792,570 by the creation of 70,292,570 deferred shares of £1 each. The deferred shares were then allotted to shareholders, bringing the total issued share capital to £108,992,095.

On 7 December 2005, following a Court Order granted on 23 November 2005, the 70,292,570 deferred shares of £1 each were cancelled, thereby reducing the authorised and issued share capitals back to their original levels of £56,500,000 and £38,699,525 respectively.

Potential issues of ordinary shares

The Company has share option schemes, which are closed for future grants, and a Long Term Incentive Plan for senior executives. No grants have yet been made under the Long Term Incentive Plan.

Details of the share options outstanding during the year are:

	Number of share options	2005 Weighted average exercise price (p)	Number of share options	2004 Weighted average exercise price (p)
At 1 January	6,951,103	144.4	6,645,738	147.8
Granted	846,319	205.5	1,188,760	145.0
Forfeited	(611,818)	137.1	(883,395)	169.3
Exercised	–	–	–	–
Expired	(109,008)	241.0	–	–
At 31 December	7,076,596	150.9	6,951,103	144.4
Exercisable at 31 December	Nil		Nil	

For share options outstanding at the end of the year the range of exercise prices was 80.0p to 359.0p (2004: 80.0p to 359.0p) and the weighted average remaining contractual life was 6.4 years (2004: 6.6 years). Options are equity settled, have a life of ten years, with the exception of certain schemes where the options lapse after six years if the performance criterion is not achieved, and vest after three years. Exercise of the options is conditional on there being an increase in earnings per share over any consecutive three year period of 2 per cent per annum for options granted prior to 2001 and 4 per cent per annum for options granted after 2000 above the increase in the Index of Retail Prices over the same period.

The estimated fair values of the options issued in 2004 and 2005 are 41p per share and 45p per share respectively. These fair values were calculated using the binominal option pricing model and the following inputs:

	2005	2004
Share price	205.5p	145.0p
Exercise price	205.5p	145.0p
Expected volatility	25.87%	37.19%
Risk free rate	4.60%	5.18%
Expected dividend yield	4.89%	6.93%

Expected volatility was calculated by reference to the Company's share price over a two year period prior to the date of grant of the option.

The group charged £0.3 million (2004: £0.1 million) to the consolidated income statement in respect of share based payments.

17. Capital reserves

	Share premium account £million	Capital redemption reserve £million	Merger reserve £million	Share options reserve £million	Total £million
At 1 January 2004	56.0	4.4	23.0	0.1	83.5
Share based payments	–	–	–	0.1	0.1
At 1 January 2005	56.0	4.4	23.0	0.2	83.6
Capital reduction	(56.0)	(4.4)	(70.3)	–	(130.7)
Goodwill transfer	–	–	47.3	–	47.3
Share based payments	–	–	–	0.3	0.3
At 31 December 2005	–	–	–	0.5	0.5

At an Extraordinary General Meeting held on 20 October 2005, shareholders of TT electronics plc approved the cancellation of its share premium account, the cancellation of its capital redemption reserve and the capitalisation of its merger reserve and subsequent cancellation of the deferred shares so created. This capital reduction was confirmed by the High Court of Justice (Chancery Division) on 23 November 2005. The accumulated profit and loss account of TT electronics plc increases by the amount of the capital reduction. Goodwill previously written-off against the merger reserve has now been charged to retained earnings.

18. Translation reserve

	£million
At 1 January 2004	–
Exchange differences on translation of foreign operations	(6.7)
Exchange differences on \$105 million borrowings	4.0
Tax expense	(0.2)
At 1 January 2005	(2.9)
Exchange differences on translation of foreign operations	12.1
Exchange differences on \$105 million borrowings	(6.4)
Tax credit	0.7
At 31 December 2005	3.5

19. Retained earnings

	£million
At 1 January 2004	49.3
Profit for the year	18.4
Actuarial net loss on defined benefit pension schemes	(10.2)
Tax credited directly to equity	2.5
Dividends paid	(15.6)
At 1 January 2005	44.4
Profit for the year	13.0
Actuarial net loss on defined benefit pension schemes	(26.0)
Deferred tax thereon	7.8
Dividends paid	(15.6)
Goodwill transferred from merger reserve	(47.3)
Capital reduction (see note 17)	130.7
At 31 December 2005	107.0

20. Shareholders equity

	£million
At 1 January 2004	174.4
Profit for the year	18.4
Exchange differences on net foreign currency investments	(2.7)
Income tax on foreign currency exchange differences	(0.2)
Actuarial net loss on defined benefit pension schemes	(10.2)
Deferred tax on actuarial loss	2.5
Dividends paid	(15.6)
Share based payments	0.1
At 31 December 2004	166.7
Profit for the year	13.0
Exchange differences on net foreign currency investments	5.7
Income tax on foreign currency exchange differences	0.7
Actuarial net loss on defined benefit pension schemes	(26.0)
Deferred tax on actuarial loss	7.8
Dividends paid	(15.6)
Share based payments	0.3
Distribution to minority interest	(0.9)
At 31 December 2005	151.7

Details of movements in the constituent elements of shareholders' equity are given in notes 16, 17, 18 and 19.

21. Borrowings

	2005 £million	2004 £million
Bank overdrafts	1.7	15.1
Bank loans	65.2	52.5
Finance leases	4.2	5.2
	71.1	72.8

The borrowings are repayable as follows:

	2005 £million	2004 £million
In one year or less	4.0	17.1
In more than one year but not more than two years	0.2	50.3
In more than two years but not more than three years	0.6	0.3
In more than three years but not more than four years	0.6	0.5
In more than four years but not more than five years	1.4	0.7
In more than five years	64.3	3.9
In more than one year	67.1	55.7

The carrying amounts of the group's borrowings are denominated in the following currencies:

	2005 £million	2004 £million
Sterling	3.9	14.8
US Dollars	61.2	52.7
Euro	4.4	4.4
Other	1.6	0.9

Borrowings of £67.4 million (2004: £56.4 million) are at fixed interest rates with an average maturity of 1.7 years (2004: 2.5 years).

21. Borrowings continued

The average interest rates at the balance sheet date were:

	2005 %	2004 %
Bank overdrafts	7.3	5.7
Bank loans	4.6	3.6
Finance leases	7.7	7.7

The estimated fair value of borrowings is:

	2005 £million	2004 £million
Bank overdrafts	1.7	15.1
Bank loans	65.2	52.5
Finance leases	4.2	5.2

At 31 December 2005, the group had available £27.3 million (2004: £8.0 million) of undrawn committed borrowing facilities.

The group borrowings are funded mainly through bank overdrafts and a committed unsecured £70 million multi-currency revolving bank loan facility which expires in April 2011. Under this facility funds can be drawn in sterling, US dollars or euros or a combination thereof at fixed rates of interest for periods varying from one month to a year. Interest rates are at a fixed margin over the inter-bank borrowing rate at the date the funds are drawn. This £70 million facility replaced a £50 million facility with effect from 22 November 2005.

The group has designated \$105.0 million (2004: \$105.0 million) of its borrowings as a currency hedge of its US dollar denominated net assets. This is an effective partial hedge. The net result of translating the US dollar net assets and the \$105.0 million of borrowings is dealt with in the translation reserve and reported in the Statement of recognised income and expense, together with the exchange difference arising from the translation of the group's other overseas subsidiaries.

22. Derivative financial instruments

	Assets £million	2005 Liabilities £million	Assets £million	2004 Liabilities £million
Forward foreign currency contracts	–	0.1	0.2	–
Interest rate swaps	–	–	0.1	–
Copper forward contract	–	0.3	–	–
	–	0.4	0.3	–

The group uses forward foreign exchange contracts to reduce currency exposures on sales and purchasing transactions for up to a year ahead. It also uses forward contracts to manage the cost of key raw materials. At 31 December 2004 there were currency contracts to reduce the translation exposure on profits earned in US dollars and euros, these contracts matured in 2005. The group entered into interest rate swaps to fix the interest on \$65 million of borrowings for the period to 30 June 2005. The group has no designated cash flow hedges at 31 December 2005 (2004: nil). The copper forward contract at 31 December 2005 has been accounted for as a fair value hedge. The carrying value of the relevant stock was increased by £0.3 million.

The fair values of the group's derivatives at 31 December 2005 and 31 December 2004 are not materially different from their carrying values.

23. Deferred tax

	Accelerated capital allowances £million	Deferred development costs £million	Tax losses £million	Retirement benefit obligations £million	Other £million	Total £million
At 1 January 2004	(4.7)	(4.4)	0.9	18.6	1.5	11.9
Profit and loss for the year	(0.5)	(0.6)	(0.1)	0.2	1.1	0.1
Credit to equity	–	–	–	2.5	–	2.5
Exchange differences	0.2	–	–	–	(0.2)	–
At 1 January 2005	(5.0)	(5.0)	0.8	21.3	2.4	14.5
Profit and loss for the year	0.6	0.5	(0.5)	(2.0)	3.3	1.9
Credit to equity	–	–	–	7.8	–	7.8
Exchange differences	(0.4)	–	–	–	0.1	(0.3)
At 31 December 2005	(4.8)	(4.5)	0.3	27.1	5.8	23.9
				2005 £million		2004 £million
Deferred tax assets				30.0		23.2
Deferred tax liabilities				(6.1)		(8.7)

At 31 December 2005 the group has unused tax losses of £4.9 million (2004: £11.0 million) for which no deferred tax asset has been recognised. None of these tax losses have an expiry date.

At the balance sheet date the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £2.8 million (2004: £3.3 million).

24. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2005 £million	2004 £million	2005 £million	2004 £million
Amounts payable under finance leases:				
One year or less	0.6	0.7	0.2	0.2
Between one and five years	2.1	2.5	0.9	1.1
Over five years	6.5	7.7	3.1	3.9

The obligations derive mainly from property leases where the risks and rewards of ownership are considered to be with the group and which are therefore accounted for as finance leases. The average implicit interest rate used to evaluate the obligations is 8 per cent (2004: 8 per cent). The fair value of the lease obligation approximates to carrying amount. Total minimum lease payments include £5.0 million (2004: £5.7 million) of future finance costs.

25. Provisions for liabilities

	Environmental £million	Legal and other claims £million	Total £million
At 1 January 2005	2.6	1.1	3.7
Utilised	(0.2)	(0.5)	(0.7)
Transfer (to)/from consolidated income statement	(0.6)	0.2	(0.4)
At 31 December 2005	1.8	0.8	2.6

The amount utilised in the year relates to the clearance of the AEI Cables' sites at Bootle and Gravesend and the transfers to the consolidated income statement relates mainly to a pollution restoration claim in the USA.

The total provisions are analysed:

	2005 £million	2004 £million
Non-current	1.0	1.6
Current	1.6	2.1
	2.6	3.7

26. Trade and other payables

	2005 £million	2004 £million
Current liabilities		
Trade creditors	54.8	59.6
Taxation and social security	5.5	5.2
Other creditors, accruals and deferred income	34.5	25.3
	94.8	90.1
Non-current liabilities		
Accruals and deferred income	4.8	6.6
Other creditors	2.6	3.1
	7.4	9.7

The carrying amount of trade and other payables approximates to their fair value.

27. Disposal of subsidiary

As referred to in note 4, the group announced the disposal of Houchin Aerospace Limited, a supplier of standby power generation equipment on 1 August 2005.

The net assets of Houchin Aerospace Limited at disposal were:

	£million
Property, plant and equipment	2.6
Inventories	2.7
Trade receivables	1.0
Cash at bank	0.2
Trade payables	(1.9)
Finance lease	(0.7)
Net assets sold	3.9
Gain on disposal	4.1
Consideration	8.0
Satisfied by	
Cash	8.1
Cash costs	(0.1)
	8.0
Net cash inflow arising on disposal	
	£million
Cash consideration	8.1
Cash costs	(0.1)
Cash and cash equivalents disposed of	(0.2)
Net cash inflow arising on disposal	7.8

28. Acquisition of subsidiaries

On 10 March 2005 the group acquired the entire share capital of Dage Limited and its subsidiaries, an electronic manufacturing services business located in the UK and China. The Dage Limited subsidiaries now trade as TT electronic integrated systems.

The net assets acquired in the transaction and the goodwill arising are as follows:

	Book value £million	Fair value adjustments £million	Fair value £million
Property, plant and equipment	1.4	(0.1)	1.3
Inventories	2.3	(0.2)	2.1
Trade receivables	5.1	–	5.1
Bank and cash balances	0.8	–	0.8
Trade payables	(3.5)	(0.1)	(3.6)
Tax	(0.3)	–	(0.3)
Total net assets	5.8	(0.4)	5.4
Goodwill			5.1
Cost of acquisition			10.5
Net outflow arising on acquisition:			£million
Cash consideration			10.3
Cash costs			0.2
Cash and cash equivalents acquired			(0.8)
Net cash outflow			9.7

The goodwill arising on the acquisition is attributable to the profitability of the business acquired and the strategic nature of the group's expansion into China.

The fair value adjustments comprise an adjustment to the residual value of plant, a provision against fixtures and fittings in a short leasehold property, restating stock and stock provisions using TT electronics' accounting policies and accruing for costs incurred in separating the business acquired from the vendor's business.

The acquired business contributed revenue of £21.7 million and operating profit of £2.4 million for the post acquisition period.

If the acquisition had occurred on 1 January 2005 then revenue would have been £26.0 million and operating profit would have been £2.8 million.

Deferred consideration of £0.4 million was paid in respect of the acquisition in 2003 of the business of Demo de Commande SA.

29. Contingent liabilities

The group has contingent liabilities amounting to £2.4 million (2004: £3.0 million) in respect of performance bonds and guarantees entered into in the normal course of business. There are no other contingent liabilities which could have a material adverse effect on the group's financial position.

30. Capital commitments

	2005 £million	2004 £million
Contractual commitments for the acquisition of property, plant and equipment	3.6	4.0

31. Operating leases

	2005 £million	2004 £million
Minimum operating lease payments charged to operating profit:		
Fixtures and equipment	0.6	0.5
Land and buildings	2.8	2.3

The group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2005 £million	2004 £million
In less than one year	3.2	2.4
Between one and five years	6.1	5.4
After five years	5.0	6.6

Lease terms for land and buildings are predominantly for less than ten years with rents fixed for an average of four years. There are no contingent rents.

32. Retirement benefit plans

Defined contribution plans

The group operates defined contribution schemes in the United Kingdom and the Rest of the World and 401(k) plans in North America. The assets of these schemes are held independently of the group. The total contributions charged by the group in respect of defined contribution schemes was £1.6 million (2004: £1.5 million).

Defined benefit plans

The group operates eleven defined benefit plans in the UK, nine of which are closed to new members and two of which have no active members. These are final salary plans. It also operates defined benefit plans in the United States and Japan relating to BI Technologies. Actuarial valuation of the plans were carried out by independent qualified actuaries between 2002 and 2005 principally using the projected unit credit method. These actuarial valuations have been updated by the actuaries to assess the assets and liabilities of the plans at 31 December 2005. Pension scheme assets are stated at market value at 31 December 2005.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2005 %	2004 %
Discount rate	4.9	5.6
Inflation rate	2.6	2.6
Increases to pensions in payment	2.5-2.6	2.5-3.0
Salary increases	3.2	3.2

The expected long-term rates of return on the main asset classes, net of expenses, set by management having regard to actuarial advice and relevant indices at 31 December 2005 were:

	2005 %	2004 %
Equities	6.9	7.0
Bonds	4.3	5.0
Gilts and cash	3.6	4.0

On the above basis the amounts recognised on the group balance sheet are:

	2005 £million	2004 £million
Equities	170.5	154.6
Bonds	2.9	4.0
Gilts and cash	72.3	44.9
Fair value of assets	245.7	203.5
Present value of funded obligation	(335.9)	(274.4)
Net liability recognised on the balance sheet	(90.2)	(70.9)

The plan assets do not include the group's financial instruments nor any property occupied by, or other assets used by the group.

32. Retirement benefit plans continued

Amounts recognised in the Consolidated income statement are:

	2005 £million	2004 £million
Current service cost	4.8	5.2
Interest on obligation	15.3	14.1
Expected return on plan assets	(12.8)	(11.8)

Of the current service cost £2.9 million (2004: £3.3 million) is included in cost of sales in the income statement, £0.6 million (2004: £0.7 million) is included in distribution costs and £1.3 million (2004: £1.2 million) is included in administrative expenses. The actual return on plan assets was £34.4 million (2004: £20.7 million). Actuarial gains and losses are recognised directly in retained earnings and reported in the Consolidated statement of recognised income and expense and since transition to IFRS amount to £36.2 million.

Changes in the present value of the defined benefit obligation are:

	2005 £million	2004 £million
Opening defined benefit obligation	274.4	242.9
Current service cost	4.8	5.2
Interest on obligation	15.3	14.1
Plan participant contributions	2.0	2.3
Change in actuarial estimates and assumptions	47.6	19.1
Exchange differences	0.3	(0.5)
Benefits paid	(8.5)	(8.7)
Closing defined benefit obligation	335.9	274.4

Changes in the fair value of plan assets are:

	2005 £million	2004 £million
Opening fair value of plan assets	203.5	180.8
Expected return on plan assets	12.8	11.8
Excess of actual over expected returns	21.6	8.9
Contributions by employer	14.1	8.7
Contributions by employees	2.0	2.3
Exchange differences	0.2	(0.3)
Benefits paid	(8.5)	(8.7)
Closing fair value of plan assets	245.7	203.5

The experience adjustments arising on the plan assets and liabilities are reported in the Consolidated statement of recognised income and expense and are as follows:

	2005 £million	2004 £million
Experience adjustments on plan liabilities	(47.6)	(19.1)
Experience adjustments on plan assets	21.6	8.9

The group expects to contribute approximately £14 million to defined benefit plans in 2006.

33. Related party transactions

All related party transactions are with entities in which J W Newman was interested during the year.

	Sale of goods and services		Purchase of goods and services		Amounts owed by related parties		Amounts owed to related parties	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
TT electronics plc	4	11	18	–	2	6	–	–
Subsidiaries	1	29	6	3	–	–	–	–
	5	40	24	3	2	6	–	–

	Rents paid		Rents received		Amounts owed by related parties		Amounts owed to related parties	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
TT electronics plc	155	151	27	27	9	–	–	14
Subsidiaries	7	129	46	78	3	–	–	–
	162	280	73	105	12	–	–	14

Sales and purchases of goods and services were on normal credit terms at third party prices. Rentals were calculated on open market bases and paid to agreed terms.

As part of the demerger from TT electronics on 14 May 2001 loans totalling £8 million were made to Newship Limited (formerly Send Group Limited). Subsequently, Newship Limited became a related party on 15 November 2002. One loan of £6.0 million was repaid in 2004 and the other of £2.0 million is due for repayment in May 2008. Interest on the loans amounted to £113,000 (2004: £152,000) of which £28,000 (2004: £3,000) was outstanding at the year end.

Compensation of key management personnel

The remuneration of key management during the year was as follows:

	2005 £million	2004 £million
Short-term benefits	2.2	2.3
Post-employment benefits	0.3	0.3
Share based payments	0.1	0.1
	2.6	2.7

Key management personnel comprise the Executive Directors, Company Secretary and Divisional Chief Executives. Their compensation is considered and approved by the Remuneration Committee.

34. IFRS 1 exemptions

IFRS 1, First-time Adoption of International Financial Reporting Standards, establishes exemptions from the full requirements of IFRS for companies complying with them for the first time. TT electronics plc applied the following exemptions:

- Business combinations: those prior to the transition date have not been restated onto an IFRS basis.
- Fair value at deemed cost: certain items of property, plant and equipment have been fair valued at the transition date and these fair valuations are treated as deemed cost. There is no overall change to the carrying value of property, plant and equipment as a result of these fair valuations.
- Employee benefits: all actuarial gains and losses on defined benefit post retirement schemes at the transition date have been recognised in equity.
- The group is taking advantage of the exemption in IFRS 1 by not classifying historic translation differences as a separate component of equity. Accordingly the cumulative translation differences for all foreign operations are deemed to be zero at the transition date and the gain or loss on subsequent disposal will therefore exclude translation differences that arose before the date of transition and will include later translation differences.
- Share based payments: the group is not applying the IFRS requirements to equity instruments such as share options granted on or before 7 November 2002.

35. Reconciliation of equity under UK GAAP to equity under IFRS at 1 January 2004 and 31 December 2004

	31 December 2004 £million	1 January 2004 £million
Shareholders' equity under UK GAAP	199.5	199.0
Recognition of pensions obligation (net of deferred tax)	(48.0)	(40.3)
Final dividend, recognised when declared and not provided for at year end	9.9	9.9
Development costs, previously written off, now capitalised as intangible assets	9.6	8.4
Other changes net, relating to goodwill amortisation, leases, financial instruments, share options, deferred tax and fair valuations	(4.3)	(2.6)
Shareholders' equity under IFRS	166.7	174.4

These reconciliations of equity at 1 January 2004 and 31 December 2004 were contained in the circular issued to shareholders on 22 July 2005.

36. Reconciliation of profit reported under UK GAAP for the year ended 31 December 2004 to profit reported under IFRS for the year ended 31 December 2004

	£million
Profit attributable to shareholders under UK GAAP	19.0
Financial instruments – currency contracts, interest rate swaps and fixed asset investments marked to market	(4.2)
Goodwill amortisation, no longer charged	2.5
Development costs, now capitalised and amortised, previously written off	1.2
Share based payments	(0.1)
Profit attributable to shareholders under IFRS	18.4

Further explanations are given in the circular issued to shareholders on 22 July 2005.

37. IFRS cash flow statement adjustments

The overall cash flows of the group do not change as a result of using IFRS. The IFRS cash flow format includes various cash flows in different categories and in a different order to UK GAAP. Development costs which were written-off as operating costs under UK GAAP are capitalised and amortised under IFRS and are classified as investing activities in the cash flow statement. Dividends and interest are reported as financing costs. Tax is reported as an operating cash flow. Certain leasehold properties accounted for as operating leases under UK GAAP are accounted for as finance leases under IFRS. The cash flow categorisation changes accordingly.

Further explanations of changes to the cash flow statement under IFRS are given in the circular issued to shareholders on 22 July 2005.

Company balance sheet

at 31 December 2005

	Note	2005 £million	2004 £million Restated
Fixed assets			
Tangible assets	1	2.6	2.5
Investments	2	139.3	146.3
		141.9	148.8
Current assets			
Deferred tax	3	0.1	–
Debtors	4	126.5	132.5
Financial instruments	6	–	0.1
Cash at bank and in hand		0.2	0.1
		126.8	132.7
Creditors: amounts falling due within one year	5	(2.8)	(34.0)
		124.0	98.7
Net current assets			
		124.0	98.7
Total assets less current liabilities			
		265.9	247.5
Creditors: amounts falling due after more than one year	5	(61.2)	(50.0)
Provision for liabilities	7	–	(0.1)
		204.7	197.4
Total net assets			
		204.7	197.4
Capital and reserves			
Share capital	8	38.7	38.7
Share premium account	10	–	56.0
Capital redemption reserve	10	–	4.4
Merger reserve	10	–	70.3
Profit and loss account	10	166.0	28.0
		204.7	197.4
Equity shareholders' funds			
		204.7	197.4

Approved by the Directors on 27 March 2006 and signed on their behalf by:

J W Newman Director

R W Weaver Director

Accounting policies for the Company financial statements

The financial statements of TT electronics plc (the Company) have been prepared under the historical cost convention as modified by the revaluation of financial assets and derivatives held at fair value in accordance with applicable United Kingdom accounting standards. The new accounting standards applicable to 2005 are FRS 17 Retirement Benefits, FRS 20 Share-based payment, FRS 21 Events after the balance sheet date, FRS 23 The Effects of Changes in Foreign Exchange Rates, FRS 25 Financial Instruments: Disclosure and Presentation, FRS 26 Financial Instruments: Measurement and FRS 28 Corresponding Amounts. Corresponding amounts for 2004 have been restated to recognise these new standards.

Because of different accounting policies from those used in the consolidated financial statements prepared under international financial reporting standards the shareholders' funds of the Company exceed those of the group.

The principal accounting policies of the Company are:

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less a provision for depreciation. Depreciation is calculated so as to write-off the cost less estimated residual value of tangible fixed assets, in equal instalments over their expected useful lives. No depreciation is provided on freehold land. The depreciation rates for the major categories of asset are given in note 1. The carrying values of fixed assets are reviewed for impairment when there is an indication that the assets may be impaired.

Investments

Investments in subsidiaries are carried at cost less amounts written-off. Other investments are carried at fair value and changes in value are dealt with in the profit and loss account.

Deferred taxation

Deferred taxation is the taxation attributable to timing differences between the results computed for taxation purposes and results as stated in the financial statements. It is recognised on all temporary timing differences where the transaction or event which gives the group an obligation to pay more tax, or the right to pay less tax in the future, has occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using the rates of tax enacted or substantively enacted by the balance sheet date.

Pension costs

The Company is a member of a multi-employer defined benefit scheme. As permitted for such schemes by FRS 17 Retirement Benefits, the Company's pension costs represent the amount of contributions payable in respect of the accounting period.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

Share based payments

The fair value at the date of grant of share based remuneration, principally share options, is calculated using a binominal pricing model and charged to the profit and loss account on a straight line basis over the vesting period of the award. The charge to the profit and loss account takes account of the estimated number of shares that will vest. All share based remuneration is equity settled.

Leases

Assets acquired under finance leases which confer substantially all the risks and rewards of ownership of an asset are capitalised and the outstanding rental instalments, net of interest, are shown in borrowings. Assets held under finance leases are depreciated over the shorter of the lease terms and the expected useful life of the asset.

Payments on operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Financial instruments

Derivative financial instruments used to manage exposure to interest rate risk and to changes in currency exchange rates are measured at fair value. All changes in fair value are recognised in the profit and loss account.

Notes to the Company financial statements

1. Tangible fixed assets

	Freehold land and buildings £million	Plant, equipment and vehicles £million	Total £million
Cost at 1 January 2005	3.0	1.0	4.0
Additions	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
Cost at 31 December 2005	3.0	1.0	4.0
Depreciation at 1 January 2005	0.6	0.9	1.5
Charge for the year	–	–	–
Disposals	–	(0.1)	(0.1)
Depreciation at 31 December 2005	0.6	0.8	1.4
Net book amounts			
At 31 December 2005	2.4	0.2	2.6
At 31 December 2004	2.4	0.1	2.5

No depreciation is provided on freehold land. Depreciation is provided on other assets at the following rates:

Freehold buildings	2%
Plant, equipment and vehicles	10 to 33%

2. Fixed asset investments

	UK unlisted £million	Subsidiary undertakings £million	Total £million
At 31 December 2004, at cost	5.3	145.3	150.6
Restatement to fair value	(4.3)	–	(4.3)
At 31 December 2004, restated	1.0	145.3	146.3
Fair value adjustment	(1.0)	–	(1.0)
Additions	–	25.0	25.0
Disposals	–	(25.0)	(25.0)
Provision	–	(6.0)	(6.0)
At 31 December 2005	–	139.3	139.3

The Company's principal operating subsidiary undertakings and the location of their principal operations are shown on page 5.

The Company owns 100 per cent of the ordinary share capital or equivalent and 100 per cent of voting rights of all subsidiary undertakings other than Rodco Limited, which is non-trading and is 60 per cent owned. Shareholdings are held indirectly for all principal operating subsidiary undertakings.

The Company holds 24.4 per cent of the equity of Pressac plc which was delisted from the London Stock Exchange in 2005. The Company does not have significant influence over the financial or operating policies of Pressac plc and so does not account for it as an associate. This holding is accounted for as a financial asset at fair value through profit or loss.

3. Deferred tax

	2005 £million	2004 £million
Deferred tax asset	0.1	–

4. Debtors

	2005 £million	2004 £million
Amounts falling due within one year		
Trade debtors	0.1	0.1
Amounts owed by subsidiary undertakings	122.2	129.4
Prepayments and accrued income	0.4	0.2
Corporation tax	1.8	0.8
	124.5	130.5
Amounts falling due after more than one year		
Loan to Newship Limited	2.0	2.0
	126.5	132.5

The pension prepayment at 31 December 2004 of £0.2 million has been written-off following the full application of FRS 17 Retirement Benefits and the comparative restated.

The loan to Newship Limited is repayable in May 2008 and bears interest at 1 per cent above base rate.

5. Creditors

	2005 £million	2004 £million
Amounts falling due within one year		
Bank overdrafts	–	0.1
Trade creditors	0.2	0.3
Amounts owed to subsidiary undertakings	–	31.5
Taxation and social security	0.6	0.8
Accruals and deferred income	2.0	1.3
	2.8	34.0
Amounts falling due after more than one year		
Bank loans (note 6)	61.2	50.0

Short-term creditors at 31 December 2004 have been restated to exclude the accrual of £9.9 million for the 2004 final dividend following the application of FRS 21 Events after the balance sheet date.

6. Borrowings and financial derivatives

The Company's principal borrowing is under a committed unsecured multi-currency loan facility which expires in April 2011. Under this facility funds can be drawn in either sterling, US dollars or euros or a combination thereof at fixed rates of interest for periods varying from one month to one year. Interest rates are at a fixed margin over the appropriate inter-bank borrowing rate at the date the funds are drawn. This facility refinanced a similar £50 million facility which was due to expire in June 2006. At 31 December 2004, the group had interest rate swaps which fixed the average interest rate for \$65 million of borrowings at 2.7 per cent for the period to 30 June 2005. In January 2006, the Company purchased an interest rate cap of 5.0 per cent for the period 2 February 2006 to 4 February 2008 for \$50 million of its borrowings.

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2005 £million	2004 £million
Sterling	–	16.2
US Dollars	61.2	33.9
	61.2	50.1

The borrowings are repayable as follows:

	2005 £million	2004 £million
On demand or within one year	–	0.1
In the second year	–	50.0
In the fifth year	61.2	–
	61.2	50.1

The fair value of borrowings is the same as their carrying value. At 31 December 2005, the Company had committed undrawn borrowing facilities available of £8.8 million (2004: £nil). There are other substantial committed and uncommitted borrowing facilities available to the group.

Financial derivatives

	2005 £million	2004 £million
Interest rate swaps	–	0.1

Interest rate swaps held at 31 December 2004 are carried at fair value.

7. Provision for liabilities

	2005 £million	2004 £million
Deferred tax liability	–	0.1

The deferred tax liability is due to accelerated capital allowances.

8. Share capital

	2005 £million	2004 £million
Authorised		
226,000,000 (2004: 226,000,000) ordinary shares of 25p each	56.5	56.5
Issued called up and fully paid		
154,798,103 (2004: 154,798,103) ordinary shares of 25p each	38.7	38.7

Following shareholder approval at the Extraordinary General Meeting held on 20 October 2005, the Company increased its distributable reserves by cancelling the Company's share premium account and capital redemption reserve, and capitalising its merger relief reserve. This had the following effect on the Company's share capital:

On 20 October 2005 the authorised share capital was increased by £70,292,570 to £126,792,570 by the creation of 70,292,570 deferred shares of £1 each. The deferred shares were then allotted to shareholders, bringing the total issued share capital to £108,992,095.

8. Share capital continued

On 7 December 2005, following a Court Order granted on 23 November 2005, the 70,292,570 deferred shares of £1 each were cancelled, thereby reducing the authorised and issued share capitals back to their original levels of £56,500,000 and £38,699,525 respectively.

Ordinary shares of 25p each are equity share capital.

Share option schemes

At 31 December 2005 options were exercisable over 7,076,596 (2004: 6,951,103) ordinary shares under the group share option schemes up to 2015. Subscription prices range from 80.0p to 359.0p with a weighted average of 150.9p. Subsequent to 31 December 2005 no options have been exercised or have lapsed. Following the approval of the Long Term Incentive Plan 2005 at the Extraordinary General Meeting held on 20 October 2005, all existing share option schemes were closed for future grants.

1994 Executive scheme

This scheme for senior executives was approved at the Annual General Meeting on 24 May 1994. The options outstanding at the date of this report are over 1,747,880 ordinary shares and such options are:

	Exercisable on or after	Options	Subscription price (p)
	15.04.1999	69,875	319.0
	22.04.2000	51,152	359.0
	24.03.2001	87,629	300.0
	31.03.2002	143,545	177.5
	28.03.2003	267,948	91.5
	18.04.2004	292,750	163.0
	03.04.2005	382,106	165.0
	26.03.2006	452,875	80.0

1996 Executive scheme

This scheme for senior executives was approved at the Annual General Meeting on 14 May 1996. The options outstanding at the date of this report are over 3,470,675 ordinary shares and such options are:

	Exercisable on or after	Options	Subscription price (p)
	06.06.1999	109,100	353.0
	22.04.2000	160,069	359.0
	24.03.2001	97,535	300.0
	31.03.2002	130,387	177.5
	15.09.2002	367,645	136.0
	28.03.2003	534,630	91.5
	18.04.2004	152,865	163.0
	23.05.2004	336,083	166.0
	03.04.2005	366,564	165.0
	26.03.2006	1,215,797	80.0

Options issued under the 1994 and 1996 Executive Share Option Schemes may not generally be exercised for a period of three years from the date of grant and are conditional on there being an increase in earnings per share over any consecutive three year period between the date of grant and the date of exercise of 2 per cent per annum for options granted prior to 2001 and 4 per cent for options granted after 2000 above the increase in the All Items Index of Retail Prices over the same period. For this purpose earnings per share on any relevant date is that derived from the audited financial statements of the Company and its subsidiaries last published prior to such date.

2004 Approved Plan

This scheme for senior executives was approved at the Annual General Meeting on 19 May 2004. On 7 April 2005 options over 196,350 ordinary shares exercisable at 205.5p were granted. The options outstanding at the date of this report are over 409,795 ordinary shares and such options are:

	Exercisable on or after	Options	Subscription price (p)
	25.05.2007	233,247	145.0
	07.04.2008	176,548	205.5

8. Share capital continued

2004 Unapproved Plan

This scheme for senior executives was approved at the Annual General Meeting on 19 May 2004. On 7 April 2005 options over 649,969 ordinary shares exercisable at 205.5p were granted. The options outstanding at the date of this report are over 1,448,246 ordinary shares and such options are:

	Exercisable on or after	Options	Subscription price (p)
	25.05.2007	816,597	145.0
	07.04.2008	631,649	205.5

Options issued under the 2004 Approved and Unapproved Company Share Option Plans may not generally be exercised for a period of three years from the date of grant and are conditional on there being growth in the group's earnings per share exceeding the Retail Prices Index by an average of 4 per cent per annum over a period of three consecutive years prior to exercise. Any year in which earnings per share is negative cannot be included. For this purpose the earnings per share on any relevant date is that derived from the audited financial statements of the Company and its subsidiaries last published prior to such date. Options lapse after six years if the performance criterion is not achieved.

9. Share based payments

Details of the share options issued are given in note 8. The basis of calculation of the share based payments, which all relate to share options issued are given in the consolidated accounts, note 16.

10. Reserves

	Share premium account £million	Capital redemption reserve £million	Merger reserve £million	Profit and loss account £million
At 1 January 2005	56.0	4.4	70.3	22.5
Restatement for:				
Dividend accrued	–	–	–	9.9
Fair value of investment	–	–	–	(4.3)
Recognition of derivatives	–	–	–	0.1
Write-off of pension prepayment	–	–	–	(0.2)
At 1 January 2005 restated	56.0	4.4	70.3	28.0
Capital reduction	(56.0)	(4.4)	(70.3)	130.7
Final dividend 2004	–	–	–	(9.9)
Interim dividend 2005	–	–	–	(5.7)
Share based payment	–	–	–	0.3
Profit for the year	–	–	–	22.6
At 31 December 2005	–	–	–	166.0

The capital reduction was approved by shareholders at an Extraordinary General Meeting on 20 October 2005 and subsequently confirmed by the High Court of Justice (Chancery Division). The capital reduction was achieved through the cancellation of the share premium account and the capital redemption reserve and the capitalisation of the merger reserve and cancellation of the shares thereby created.

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

11. Guarantees and financial commitments

Financial commitments relating to bank loans are set out in note 6. The Company has no guarantees or contingent financial commitments.

12. Obligations under operating leases

The operating lease payments due within one year to which the Company was committed at 31 December 2005 were:

	Land and buildings £million	Other £million	2005 Total £million	Land and buildings £million	Other £million	2004 Total £million
On leases expiring:						
Within one year	–	0.1	0.1	–	–	–
Between two and five years	0.6	0.1	0.7	–	0.1	0.1
Over five years	0.4	–	0.4	0.4	–	0.4
	1.0	0.2	1.2	0.4	0.1	0.5

13. Pension schemes

Defined benefit scheme:

The Company is a member of a multi-employer defined benefit scheme which is closed to new entrants. The Company is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly the Company has applied the exemption in FRS 17 and accounted for the scheme as if it were a defined contribution scheme. The total contributions charged by the Company in respect of the year ended 31 December 2005 were £1.5 million (2004: £0.8 million). The most recent triennial valuation of the scheme has been updated by an independent qualified actuary, taking account of the requirements of FRS 17 to assess the liabilities of the scheme at 31 December 2005. The market value of the scheme's assets at the year end was £23.7 million and the present value of the scheme's liabilities was £32.9 million.

On 31 January 2006 the defined benefit scheme of Prestwick Circuits Limited was merged into the multi-employer defined benefit scheme.

On 28 February 2006 the defined benefit schemes of BI Technologies Limited and Dale Electric International Limited were merged into the multi-employer defined benefit scheme.

Defined contribution scheme:

The Company operates a defined contribution scheme which is set up under trust and whose assets are therefore independent of the Company. The total contributions charged by the Company in respect of the year ended 31 December 2005 were £13,000 (2004: £9,000).

14. Employees

The average number of employees (including Directors) during the year was:

	2005 number	2004 number
By function		
Administration	52	50

The aggregate emoluments (including those of Directors) for the year was:

	2005 £million	2004 £million
Wages and salaries	3.9	3.5
Employer's social security charges	0.5	0.4
Employer's pension costs	1.5	0.8
	5.9	4.7

Remuneration in respect of the Directors was as follows:

	2005 £million	2004 £million
Emoluments	1.2	1.6

Further details of individual Directors' remuneration, pension benefits and share options are shown in the Directors' remuneration report on pages 28 to 32.

Report of the Independent Auditors to the members of TT electronics plc

We have audited the Company financial statements of TT electronics plc for the year ended 31 December 2005 which comprise the principal accounting policies, the balance sheet and notes 1 to 14. These Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the consolidated financial statements of TT electronics plc for the year ended 31 December 2005.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual report, the Directors' remuneration report and the parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the Company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Company financial statements give a true and fair view and whether the Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the Company financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual report and consider whether it is consistent with the audited Company financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement and the Business review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Company financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- the Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

Registered Auditors, Chartered Accountants
London, 27 March 2006

Notice of meeting

Notice is hereby given that the Annual General Meeting of TT electronics plc will be held at the Ironmongers' Hall, Shaftesbury Place, Barbican, London EC2Y 8AA on Wednesday 17 May 2006 at 12 noon for the following purposes:

1. To receive the financial statements for 2005, the Directors' report, the Directors' report on corporate governance and the Auditors' reports.
2. To approve the Directors' remuneration report for the year ended 31 December 2005.
3. To declare a dividend of 6.36p per ordinary share.
4. To re-elect J W Newman as a Director.
5. To re-elect J W Armstrong as a Director.
6. To re-elect N A Rodgers as a Director.
7. To re-elect T H Reed as a Director.
8. To reappoint Grant Thornton UK LLP as Auditors and to authorise the Directors to fix the Auditors' remuneration.

As special business, to consider and, if thought fit, to pass the following resolutions of which resolution 9 will be proposed as an ordinary resolution and resolutions 10 and 11 will be proposed as special resolutions.

General Allotment Authority

9. THAT the Directors of the Company, in substitution for all authorities previously conferred upon them (save to the extent that the same may already have been exercised), be and they are hereby authorised generally and unconditionally for the purposes of Section 80 of the Companies Act 1985 (the 'Act') to allot relevant securities (within the meaning of Section 80(2) of the Act) up to a maximum aggregate nominal amount of £12,899,841, such authority to expire on 30 June 2007 save where the Directors exercise such authority pursuant to an offer or agreement made prior to that date.

Disapplication of Pre-emption Rights

10. THAT the Directors of the Company be and they are hereby empowered in accordance with Section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (as defined in Section 94 of the Act) for cash, pursuant to the general authority conferred by resolution 9 above and/or to sell equity securities held as treasury shares for cash pursuant to Section 162D of the Act, or partly in one way and partly the other, in each case as if sub-section (1) of Section 89 of the Act did not apply to any such allotment or sale, provided that the power conferred by this resolution shall be limited to:
 - i) any such allotment and/or sale of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of ordinary shares held by them on the record date of such allotment and/or sale subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory or the requirements of any regulatory body in any territory or any other matter whatsoever; and
 - ii) any such allotment and/or sale (otherwise than pursuant to sub-paragraph (i) of this resolution) of equity securities up to an aggregate nominal value not exceeding £1,934,976.

and this power, unless renewed or revoked, shall expire on 30 June 2007 but shall extend to the making, before such expiry, of any offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the Directors may allot securities and/or sell equity securities held as treasury shares in pursuance of such offer or agreement as if the authority conferred hereby had not expired and so that all previous authorities of the Directors pursuant to Section 89 of the Act, save to the extent to which any such previous authorities have already been exercised, be and they are hereby revoked.

Purchase of Own Shares

11. THAT the Company be and is hereby generally and unconditionally authorised, pursuant to the provisions of Article 53 of the Company's Articles of Association and for the purposes of Section 166 of the Companies Act 1985 (the 'Act'), to make one or more market purchases (within the meaning of Section 163(3) of the Act) on the London Stock Exchange plc (the 'Exchange') of ordinary shares of 25p each in the capital of the Company ('ordinary shares') provided that:

- i)** the maximum aggregate number of ordinary shares hereby authorised to be purchased is 15,479,810 representing approximately 10 per cent of the Company's issued ordinary share capital;
- ii)** the minimum price which may be paid for such ordinary shares is 25p per ordinary share (exclusive of expenses);
- iii)** the maximum price (exclusive of expenses) which may be paid for an ordinary share is not more than 5 per cent above the average of the market values for an ordinary share as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;
- iv)** unless previously revoked or varied, the authority hereby conferred shall expire on 30 June 2007; and
- v)** the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By Order of the Board

M G Leigh

Secretary

19 April 2006

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders registered in the Register of Members of the Company by 6pm on 15 May 2006 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after 6pm on 15 May 2006 will be disregarded in determining the rights of any person to attend or vote at the Meeting.

Members are entitled to appoint one or more proxies to attend and, on a poll, to vote for them. A proxy need not be a member of the Company. Proxies, to be effective, must be lodged with Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL at least 48 hours before the time fixed for the Meeting.

The new service contracts which are terminable on notice of 12 months between certain executive Directors and the Company, as set out in the Directors' remuneration report, will be on display prior to the Annual General Meeting.

No other service contract exists or is proposed between any Director of the Company and any subsidiary undertaking of the Company which is terminable on notice of longer than three months.

A form of proxy is enclosed.

Historical record

Accounting year		IFRS		UK GAAP		
		2005	2004	2003	2002	2001
Revenue	(£million)	565.3	573.1	533.9	520.3	657.9
Profit before taxation	(£million)	26.8	30.0	3.2	7.9	25.8
Basic earnings per ordinary share	(p)	11.8	13.0	(0.1)	3.6	12.2
Adjusted earnings – see note below	(£million)	18.3	20.1	16.2	15.6	24.7
Ordinary dividend	(£million)	15.6	15.6	15.6	15.6	15.6
Ordinary dividend per share	(p)	10.05	10.05	10.05	10.05	10.05
Average ordinary shares in issue	(million)	154.8	154.8	154.8	154.8	154.8
Shareholders' funds	(£million)	151.7	166.7	196.1	205.7	222.1

Note

Earnings is stated as being before impairment provisions, goodwill amortisation and exceptional items where appropriate for the applicable accounting standards ruling at that time.

Shareholder information

Annual General Meeting

The Annual General Meeting will be held on 17 May 2006 at 12 noon at the Ironmongers' Hall, Shaftesbury Place, Barbican, London EC2Y 8AA.

Results

Announcement of 2006 half year results – mid September 2006.

Preliminary announcement of 2006 results – late March 2007.

Annual report 2006 – to be posted mid April 2007.

Dividends

The final dividend in respect of the year to 31 December 2005 will be paid on 26 May 2006 to those shareholders on the register on 19 May 2006. Shares ex dividend on 17 May 2006.

The interim dividend in respect of the year to 31 December 2006 will be paid in late October 2006.

For those shareholders who currently receive their dividends by post, arrangements can be made to pay your dividends automatically into your bank or building society account. A registration form will be included with the final dividend. This service has a number of benefits:

- there is no chance of the dividend cheque going missing in the post; and
- the dividend payment is received quicker as the cash is paid directly into your account on the payment date without the need to wait for the cheque to clear.

Multiple accounts on the shareholder register

If you have received two or more copies of this document, this means that there is more than one account in your name on the shareholder register. This may be caused by either your name or address appearing on each account in a slightly different way. For security reasons, the Registrars will not amalgamate the accounts without your written consent, so if you would like any multiple accounts combined into one account, please write to Lloyds TSB Registrars at the address given below.

Share dealing services

Shareview Dealing is a telephone and internet service provided by Lloyds TSB Registrars and provides a simple and convenient way of buying and selling TT electronics plc shares.

Log on to www.shareview.co.uk/dealing or call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday, for more information about this service and for details of the rates and charges.

A weekly postal dealing service is also available and a form together with terms and conditions can be obtained by calling 0870 242 4244. Commission is 1 per cent with a minimum of £10.

ShareGift

ShareGift is a charity share donation scheme for shareholders, administered by The Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomical to sell on a commission basis. Further information can be obtained at www.sharegift.org or from Lloyds TSB Registrars.

Shareholder enquiries

Lloyds TSB Registrars maintain the register of members of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars:

Lloyds TSB Registrars

The Causeway
Worthing
West Sussex
BN99 6DA

Telephone
0870 600 3970

Fax
0870 600 3980

Textphone for shareholders with hearing difficulties
0870 600 3950

Lloyds TSB Registrars also offer a range of shareholder information on-line at www.shareview.co.uk.

Website

Information on the group's financial performance, activities and share price is available at www.ttelectronics.com.

TT electronics plc

Clive House
12 – 18 Queens Road
Weybridge
Surrey KT13 9XB

Reg. No. 87249

Tel +44(0) 1932 841310

Fax +44(0) 1932 836450

www.ttelectronics.com

Cover image

Illustrated is an Autopad® printed circuit board for one of our new automotive sensors. Our Autopad® technology provides world-beating capabilities in non-contact position sensing. Key benefits offered are excellent design flexibility and high performance.