TT electronics plc

Annual Report 2006

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

Highlights 2006

- Operating profit before exceptional items up by 21 per cent
- Global footprint for electronic manufacturing services through acquisition of Apsco Holdings, Inc in November 2006
- Employees in low cost economies now 39 per cent of workforce
- Earnings per share from trading increase by 32 per cent to 14.1p
- Dividend for the year maintained at 10.05p per share

Financial summary

	2006 £million	2005 £million
Revenue	**600.3**	565.3
Operating profit before exceptional items	**36.2**	29.9
Profit before taxation	**39.3**	26.8
Profit on ordinary activities after taxation from continuing activities	**28.0**	18.3
Basic earnings per share	**18.1p**	8.4p
Basic earnings per share before exceptional items from continuing activities	**14.1p**	10.7p
Ordinary dividends per share	**10.05p**	10.05p

Chairman's statement

2006 has been a successful year for TT electronics plc. Revenue has increased by 6 per cent to £600.3 million from £565.3 million in the previous year. Operating profit before exceptional items improved by 21 per cent to £36.2 million compared to £29.9 million in the previous year. Finance costs (net) were £5.7 million (2005: £6.1 million) comprising £3.8 million of bank and finance lease interest and £1.9 million relating to pension fund accounting. Profit before tax and exceptional items was £30.5 million compared with £24.7 million in 2005, an increase of 23 per cent. Taxation charge excluding the charge on exceptional items was £8.7 million compared with £8.1 million in 2005 at an effective rate of 29 per cent (2005: 29 per cent). Basic earnings per share from continuing operations and before exceptional items were 14.1p (2005: 10.7p), an increase of 32 per cent. Basic earnings per share were 18.1p (2005: 8.4p).

The exceptional item in 2006 was a profit of £8.8 million resulting from a curtailment in future benefits due to the three year freeze on pensionable salaries. This is part of the major reorganisation of pension arrangements which takes effect in 2007. The exceptional item in 2005 was a profit of £2.1 million from the gain on sale of land, disposal of a business less closure costs of two businesses.

We expanded our electronic manufacturing services (ems) activities with the acquisition of Apsco Holdings, Inc in November 2006 for £15.2 million. Apsco is based in Cleveland, USA and reported pre-tax profits of £1.9 million on revenue of £28.5 million for the year to 30 December 2005. Apsco will complement the group's existing ems activities in the UK, Malaysia and China and will be able to make use of low cost manufacturing in our Malaysian and Chinese factories to meet its American customers' requirements.

During the year we closed our loss-making ems factory near Newcastle. The business was transferred to our South Wales factory and to our Malaysian production unit. With the elimination of these losses and the acquisition of Apsco, the group expects a significant growth in 2007 profits from the ems businesses.

Automotive sales represent 37 per cent of TT electronics' revenue. The recent intention of the European Commission to force carmakers to increase the fuel efficiency of new cars by 18 per cent by 2012 indicates that the strong demand for our electronic sensor products will continue. In December 2006, the group signed an agreement to form a joint venture with an established supplier to the automotive industry in India. The company will sell the group's range of sensors and systems to the Indian automotive market, which offers considerable growth potential.

At 31 December 2006, the group's indebtedness was £71.0 million compared to £47.1 million in 2005. The increase was due to the acquisition of Apsco for £15.2 million in November 2006, special cash contributions to the pension schemes and the substantial increase in the cost of copper which has impacted inventories and receivables.

We merged six of the group's nine principal UK pension schemes into one during the year and this and the remaining three schemes will merge with effect from April 2007. The group has continued to make special contributions and ordinary payments into the schemes. These totalled £11.4 million in 2006. These payments, the upward movement in the stock market, the increase in the discount rate, the curtailment and changes in mortality assumptions have overall reduced the deficit of the pension funds to £72.6 million compared to £90.2 million in the previous year.

2006 has been a successful year for TT electronics plc.

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

My thanks to all the employees of TT electronics for contributing to the improved performance of the group and for their continued efforts in the future.

Martin Leigh, the Company Secretary for many years, retired at the end of 2006. I should like to thank him for his contribution to the group and wish him well for the future. Wendy Sharp has been appointed as Company Secretary.

TT electronics has profited from both product innovation and the move of manufacturing to low labour cost countries. These successes together with further acquisitions will enable the group to be well positioned for future growth.

John W Newman
Executive Chairman
16 March 2007

Group operations

Sensors and electronic systems

TT electronics specialises in the manufacture of sensors and electronic systems for major global automotive, telecom, computer and industrial customers. Our sensor operations utilise precision electronic technologies to provide competitive, quality assured solutions to exacting customer standards.

Electronic systems comprise heating, air conditioning and in-car entertainment controls.

Our aim is to continue to provide leading edge technologies, competitively priced, to the expanding global electronics market.

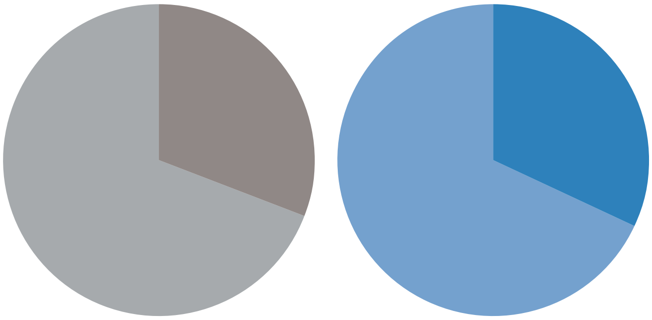
Electronic components

TT electronics is a world leader in the manufacture and supply of precision components to global markets. Supported by application engineers in locations across the world, our customers look to TT electronics to provide the specialist skills to design-in products for their range of specific applications.

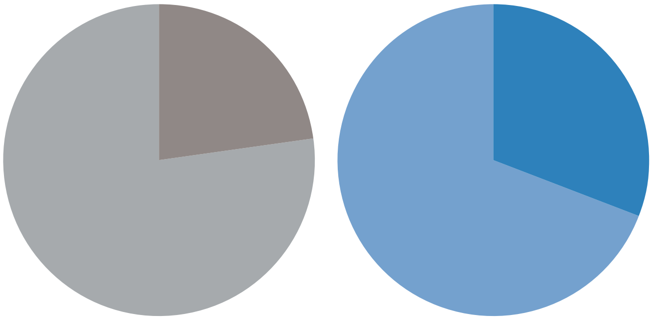
Products are developed in high technology environments and increasingly manufactured in low labour cost economies, supported by experienced technical resources and a worldwide network of sales offices.

We continue to develop new products to maintain our leading market position in specialist technologies.

Sensors and electronic systems	£m	% of group
sector revenue	184.8	31
sector profit	11.6	32



Electronic components	£m	% of group
sector revenue	139.9	23
sector profit	11.4	31



Electronic manufacturing services

TT electronics provides electronic manufacturing services from our UK and USA operations together with our low labour cost facilities in China and Malaysia to customers worldwide. Our factories provide a full range of services including manufacturing, logistics and field support.

The expansion of our electronic manufacturing services operations in China, Malaysia and the USA has established a global business capable of servicing our customers' needs for both high and low volume production runs.

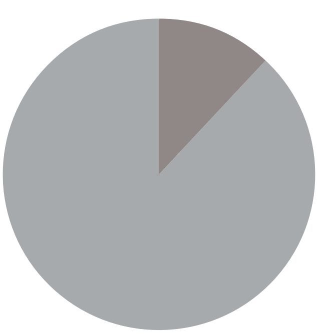
Power systems and transmission

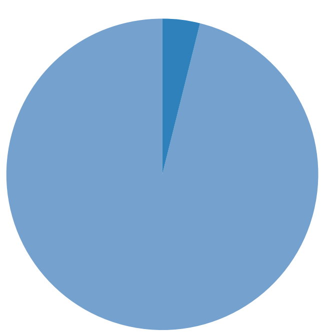
TT electronics holds a leading position as a supplier of electrical products to customers across the world.

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

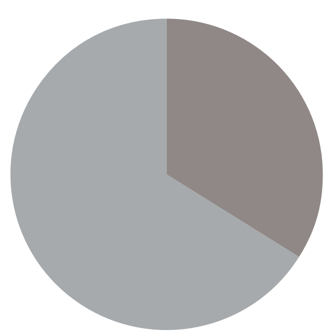
We continue to expand our sales presence across the world using our strong brand names and worldwide sales force, combining manufacturing expertise from established factories with expansion into low cost economies.

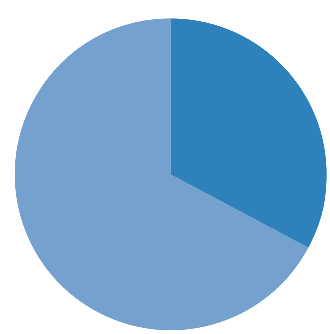
Electronic manufacturing services	£m	% of group
sector revenue	72.1	12
sector profit	1.3	4





Power systems and transmission	£m	% of group
sector revenue	203.5	34
sector profit	11.9	33





Sensors and electronic systems

The automotive electronics market, in which TT electronics is a world leader with our renowned highly accurate pedal products, has seen rapid growth in recent years.

Autopad® is the newly developed, patented inductive position sensing technology. This provides a robust and cost effective alternative to other forms of position sensing. The progress made to date in establishing Autopad® technology with key customers gives us confidence that TT electronics is well positioned to benefit from the growing global demand for automotive sensors.

TT electronics' optical sensing solutions are marketed throughout the world. New developments are centred on the expansion of this range into the rapidly growing LED lighting market.

Major operations
Germany
Mexico
United Kingdom
USA

Products
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
Temperature sensors

Markets
Agricultural
Automotive
Heavy goods vehicle
Industrial
Mechanical handling equipment
Medical
Office equipment

Customers
BMW
DaimlerChrysler
Delphi
MAN
Mitsubishi
Saab
Scania
Volvo
VW/Audi

1
The first volume Autopad® application, due for launch in 2007, is for accelerator pedals for a major customer in the German automotive market.

2
Expansion into the heavy goods vehicle market has been a target for growth. TT electronics now supplies a range of temperature and pressure sensors, accelerator pedals and climate control units to this important growing market.

3
Manufacturing in the Ukraine has been expanded in the past year with products transferred from our German manufacturing sites.


1


2


3

This sensor controls the temperature and flow of diesel fuel to the engine. Volume production commenced in 2006 for a German automotive manufacturer.

TT electronics has developed combined temperature and pressure sensors.

Electronic components

TT electronics' strong customer relationships and global reputation enable the group to work closely with customers to develop innovative product solutions. This provides a profitable mix of new, highly successful and well established products.

TT electronics' precision power modules are gaining increasing recognition from the automotive industry which is being driven to improve vehicle fuel consumption and meet latest emission controls legislation.

Major operations
Austria
Malaysia
Mexico
United Kingdom
USA

Products
Blower motor resistors
Electronic control power modules
Inductors and magnetics
Magnetics
Microcircuits
Potentiometers and trimmers
Resistors and resistor networks

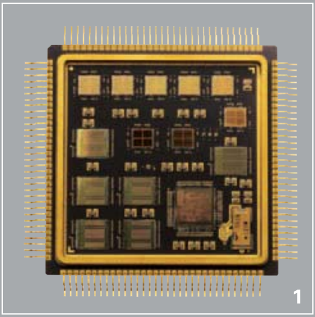
Markets
Automotive
Defence and aerospace
Industrial
Medical
Telecom and computer

Customers
Arrow Electronics
Delphi
Ericsson
Future Electronics
Hella
Honeywell
Marquardt
Pierburg
TTI
Visteon

1
New orders have been received for the latest phase of the Eurofighter programme to which TT electronics supplies a number of electronic control modules.

2
TT electronics' specialist microelectronics manufacturing operations supply electronic control modules for the Trent engine programme on the new Boeing 787 Dreamliner.

3
The recently expanded printing and assembly operation established in Mexico. This low labour cost factory now supplies all the automotive thick film products to our facility based in Texas.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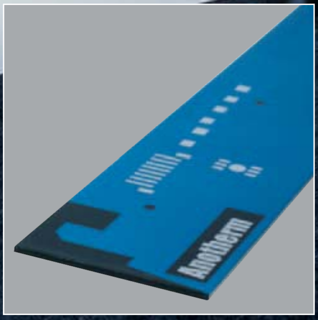


TT electronics has won a volume production contract for patented Anotherm™ technology for use in the flat screen LCD television market. Volume manufacture commenced in late 2006.

TT electronics has won a volume production contract for patented Anotherm™ technology.

Electronic manufacturing services

The purchase of Apsco in November 2006 has provided the group with a global capability. TT electronics can now provide manufacturing services from our USA and UK factories in addition to our growing operations in low labour cost economies.

We target niche markets and establish strong customer relationships through the supply of high value added services.

Our defence and aerospace business is a growing element of TT electronics' total operations. The group has been awarded new contracts in the UK and USA for the supply of products for military field communication systems, missile guidance systems and weapon system programmes.

Major operations
China
Malaysia
United Kingdom
USA

Products
Full service logistics provider
High speed technology backplanes
Integrated system assembly
PCB assembly

Markets
Automotive
Defence
Industrial
Medical
Telecom and computer

Customers
BAE Systems
British Telecom
Ericsson
Harris
Inter-Tel
Kodak
Lincoln Electric
Motorola
Thermo Fisher
Xerox

1
TT electronics' new acquisition, Apsco, is located in Cleveland, USA. From this 12,000 square metre facility, Apsco supplies major blue chip customers in its domestic market.

2
A product manufactured by Apsco for the telecommunications market. This is a typical product combining printed circuit board assembly with specialist assembly and test skills.

3
Manufacturing in China is a key factor of the electronic manufacturing services business strategy. Our factory has expanded to over 15,000 square metres in the two years since acquisition.


1


2


3

Complete assemblies are manufactured in China using locally sourced components.

TT electronics is an important supplier to the mobile telephone market.

Power systems and transmission

TT electronics is a total solutions provider for power generation. The group's strong manufacturing base in Mexico exports to Central America, USA, China and Africa. The group also manufactures and distributes uninterruptible power supplies and provides service, maintenance and refurbishment from our UK operation for a range of diesel and gas turbine power generators.

TT electronics manufactures and distributes a broad range of industry leading products for power transmission. These include industrial cables, cable accessories, compounds, insulators and connection systems.

Major operations
Mexico
South Africa
United Kingdom
USA

Products
Electrical connection systems
Insulation products
Power transmission accessories
Power transmission cables
Standby and continuous power generator sets
Uninterruptible power supplies

Markets
Automotive
Defence and aerospace
Industrial
Power generation
Power transmission
Telecom and computer

Customers
Banamex
British Aerospace
Central Networks
Edmundson Electrical
John Guest
National Rail
Scottish Power
T-mobile
VT
Walmart

1
The world beating Pinzgauer military vehicle for which TT electronics supplies specialist connection systems and controls.

2
TT electronics sells electrical fused cutouts to the African market for power installation into housing and small businesses.

3
TT electronics manufactures electrical products in China. Our manufacturing facility in China provides the administrative infrastructure to enable TT electronics' business units to easily commence manufacturing locally.

1


2


3

TT electronics' connection systems have achieved increased sales to military vehicles and mass-transit systems.

TT electronics connection systems' capability has been expanded to supply military and traction industries.

Highlights

- **Growth in operating profit before exceptional items to £36.2 million from £29.9 million**
- **Acquisition of Apsco strategically enhances global electronic manufacturing services operations**
- **Employees in low cost manufacturing operations are now 39 per cent of the total workforce**
- **Continued success from Autopad® – new contracts won in 2006**

TT electronics designs, manufactures and sells electronic and electrical products worldwide. The electronic products concentrate on sensors, automotive electronic systems, components based on resistive and optoelectronic technology and outsourced contract electronic assembly manufacture. The electrical products are electricity generating sets, uninterruptible power supplies, electrical cables and cable accessories. The main markets served are automotive, telecoms and computer and industrial.

TT electronics' strategy is to provide specialist innovative products with superior product quality and reliability over those of our competitors. The markets in which we operate are global and there is considerable price pressure particularly in the automotive market which represents 37 per cent of group revenue. The continuing introduction of new products which have better functionality or are more cost effective is an important element in the short and long term strategy of the group.

The summary of key financial performance indicators and a review of the performance for the group overall as well as for each sector of the group's operations are set out below.

Overview of group performance

	2006 £million	2005 £million
Revenue		
sensors and electronic systems	**184.8**	195.0
electronic components	**139.9**	129.6
electronic manufacturing services	**72.1**	60.3
Electronic sector	**396.8**	384.9
power systems	**63.1**	50.4
power transmission	**140.4**	130.0
Electrical sector	**203.5**	180.4
Group total	**600.3**	565.3
Operating profit[1]		
sensors and electronic systems	**11.6**	9.1
electronic components	**11.4**	8.7
electronic manufacturing services	**1.3**	2.0
Electronic sector	**24.3**	19.8
power systems	**5.4**	4.6
power transmission	**6.5**	5.5
Electrical sector	**11.9**	10.1
Group total	**36.2**	29.9
Capital employed	**286.8**	272.5
Return on capital employed	**13%**	11%
Number of employees	**7,940**	8,430

(1) Throughout this review operating profit is stated before exceptional items of profit of £8.8 million (2005: £2.1 million).

TT electronics has achieved an operating profit before exceptional items of £36.2 million, which is a growth of 21 per cent over the prior year of £29.9 million.

Left
Neil A Rodgers
Chief Executive

Right
Roderick W Weaver
Finance Director

This growth is built on improved market conditions and the rationalisation of operations in the UK and France during 2005.

The increase in return on capital employed to 13 per cent (2005: 11 per cent) has been diluted due to the increased investment in working capital resulting from the higher cost of copper metal used in the electrical sector.

The rationalisation of our high volume electronic manufacturing services unit based in the North East of England was completed during the year.

We announced in November 2006 our plans to establish a controlling interest in a joint venture company based in Delhi, India, to serve the Indian automotive market. It is intended that our sensor technology combined with our partner's customer contacts will enable us to sell into this rapidly expanding market. The progressive adoption by the Indian government of European emission control standards for automotive products will provide our joint venture with excellent market opportunities.

Our companies have grown due to demand generally strengthening across many of our business units. The North American automotive market is an exception and demand here has continued to decline; however, our exposure to this market downturn is relatively small being less than 7 per cent of TT electronics' total revenue and many of our new products have been on newly launched vehicles where volumes in the initial stages of production have been healthy. Our new range of inductive sensors is anticipated to be incorporated into several new series of vehicles thereby generating growth when production of these vehicles starts in late 2007 with volumes accelerating through 2009.

The development of new products is an essential part of the successful future of TT electronics. We have increased the pace of new product introduction in both the electronic and electrical sectors. This will provide a strong platform for future growth.

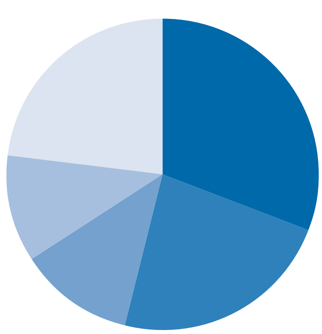
Sensors and electronic systems

Our product range includes: electronic sensors which measure pressure, temperature, angle and rotational speed for applications such as engine management, accelerator pedals, suspension movement and engine speed; climate control systems used in vehicle heating and ventilation units; optoelectronic sensors which detect both visible and infrared light beams.

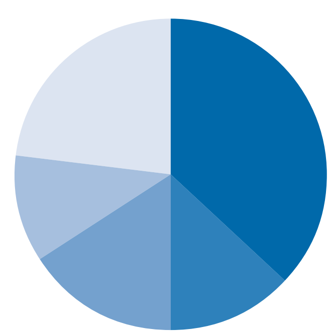
	2006 £million	2005 £million
Revenue	**184.8**	195.0
Operating profit	**11.6**	9.1
Capital employed	**87.4**	89.1
Return on capital employed	**13%**	10%
Number of employees	**2,601**	2,804

The development of the Autopad® sensor product range has continued and during the year we have won new business. These sensors will be used in angle measurement applications. The Hall effect non-contacting sensors are more suitable for measuring speed such as engine crankshaft or road wheel rotation speeds. These are also progressing well and particularly pleasing is the development of our Hall effect torque and digital angular position sensor used in steering technology. This has been developed alongside our Autopad® system and provides an alternative contactless sensor technology. We also produce a successful range of contacting sensors.

Revenue by product	**%**
Sensors and electronic systems	**31**
Electronic components	**23**
Electronic manufacturing services	**12**
Power systems	**11**
Power transmission	**23**



Revenue by market	**%**
Automotive	**37**
Telecom and computer	**13**
Industrial	**16**
Power systems	**11**
Power transmission	**23**



We are expanding our operation based near Dresden, Germany where our success in developing new products for pressure and temperature sensing applications has continued. The manufacture of the first of our newly developed range of combined pressure and temperature sensors started in late 2006.

The reorganisation of our electronic systems business on to a single site in the UK was completed in mid 2006. New climate control business has been won from North American OEMs. This will be manufactured in a newly established Chinese factory by mid 2007.

We had high hopes of growth from our discrete visible optoelectronic product range launched in late 2005. However, interruption in the supply of components has delayed this growth. We have established a new, more reliable source of components and the product was re-launched in December 2006.

The overall revenue of this sector has declined by £10.2 million resulting from the closure of our loss-making business in France which had revenue of £11.3 million in 2005.

Price competition is fierce. New product development is the key strength for the group's sensor and system operations by which we maintain our position as one of the world leaders producing excellent specialised products which fulfil our customers' technically demanding expectations.

Electronic components

We sell a broad range of electronic components largely based on our extensive electronic resistive technologies. These components range from very complex individual microcircuits to complex hybrid power control circuits used in advanced aerospace and automotive applications. New products have been a feature of this year's sales efforts in our global operations.

An example is our Anotherm™ product which has been developed to provide efficient heat management of bright visible light emitting diode (VLED) assemblies. This has achieved success with the award of two contracts for applications in the flat screen television market. Further developments of this substrate technology have attracted much interest in both automotive and industrial markets and we anticipate that these will provide further growth in the future.

	2006 £million	2005 £million
Revenue	**139.9**	129.6
Operating profit	**11.4**	8.7
Capital employed	**95.9**	101.4
Return on capital employed	**12%**	9%
Number of employees	**2,598**	2,597

Our specialist automotive electronic control module business based in Austria supplying the German automotive market has had an exceptional year. Additional manufacturing capacity is now planned to support a range of new products – such as VLED vehicle lighting assemblies and power control modules.

TT electronics manufactures specialist thin film resistive products for high frequency applications. High demand has required our Texas based factory to work seven days a week to meet customer requirements. We are confident of this demand continuing and investment in additional production capacity has been authorised which will be completed during 2007.

It is central to our marketing strategy to supply technically advanced products for specialist applications. These attract higher margins than commodity products but only the development of new products maintains our competitive advantage.

Electronic manufacturing services

Our electronic manufacturing services businesses provide high quality resources for the assembly of both complete products as well as the manufacture of printed circuit assemblies. The group has factories in the UK from where the more specialised, lower volume defence and aerospace markets are served and in China and Malaysia where typically lower margin, high volume telecom products are assembled.

	2006 £million	2005 £million
Revenue	**72.1**	60.3
Operating profit	**1.3**	2.0
Capital employed	**31.4**	15.6
Return on capital employed	**4%**	13%
Number of employees	**888**	739

In November we acquired Apsco, a high margin, low volume electronic manufacturing services business based in Cleveland, USA. Apsco specialises in providing complex power solutions to a number of long standing customers. We anticipate that this business will require a low cost manufacturing capability to enhance its existing business and also to enable it to grow from the excellent opportunities with existing and new customers.

Our Chinese operations have recently been expanded to 15,000 square metres of floor area in six factories. China will be able to provide the infrastructure and support platforms for the group's future growth.

The UK business has been rationalised and low margin, high volume business has been transferred to our Malaysian plant which has been expanded to cope with this additional demand. Other more specialist customers are being resourced from our factory in Wales.

All our electronic manufacturing services businesses now operate under a single management structure as a global supplier, targeting high margin, low volume business in niche markets. This strategy is expected to generate good returns and provide a basis for future profit growth.

Electrical

The electrical power systems businesses provide solutions which ensure that electrical power is reliably delivered to customers. The markets served are supermarkets, banks, hospitals and telecom where an uninterruptible service is key. The power transmission operations manufacture and sell electrical cable from domestic sizes to 11KV, along with connection systems, cable accessories and fuse gear.

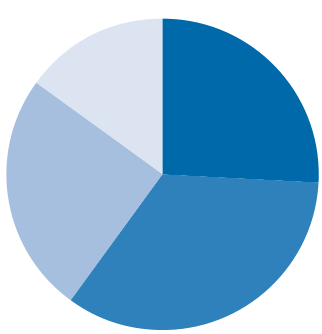
The end markets for the cable products are mainly building infrastructure, mass transit rail projects, naval and ground based defence systems.

	2006 £million	2005 £million
Revenue		
power systems	**63.1**	50.4
power transmission	**140.4**	130.0
	203.5	180.4
Operating profit		
power systems	**5.4**	4.6
power transmission	**6.5**	5.5
	11.9	10.1
Capital employed	**72.1**	66.4
Return on capital employed	**17%**	15%
Number of employees	**1,853**	2,033

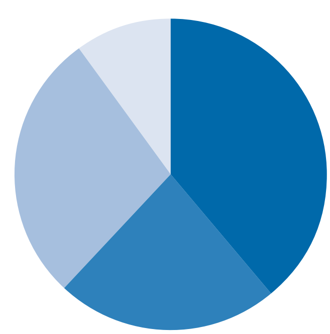
Our electrical businesses have produced excellent profits during the year and are concentrating on expanding existing and new specialist high margin products into niche markets.

The major contract to provide generator sets to Central America was completed very successfully by our Mexican business which also experienced very strong growth in revenue and profit from the demand for reliable electrical power within its domestic market.

Revenue by destination	%
United Kingdom	**26**
Rest of Europe	**34**
North America	**25**
Rest of the World	**15**



Revenue by origin	%
United Kingdom	**39**
Rest of Europe	**23**
North America	**28**
Rest of the World	**10**



Our UK based electrical connection system operation has also been particularly successful; it is further expanding its product range and will benefit from the newly established cable harness facility based in China. New defence and mass transit contracts have fuelled strong profit generation.

Our cable accessories business surpassed expectations with new business won in the UK export markets. Manufacture of some fuse gear products is now starting at our Chinese operation and we expect improved profit from the benefit of these low cost supplies.

The cable manufacturing operation based in the United Kingdom had an acceptable year but pricing in this highly competitive commodity market remains difficult.

Overall the market conditions for our electrical businesses were favourable, with growing demand for diesel powered electricity generators to both act as standby units in the event of overall power failures and also to produce lower cost electricity at times of peak pricing. The military demand for both connection systems and specialist cable has boosted this year's profit.

Exceptional items

The pensionable salaries in the major UK pension schemes have been frozen for three years. This means that the final pensionable salaries which are typically anticipated to increase at a rate slightly above inflation will be unchanged for this period and therefore the future liability for pension payments is reduced. The effect of this is a reduction in liabilities of £8.8 million which is treated as a curtailment under the requirements of IAS 19 Employee Benefits and reported as a profit through the consolidated income statement. The exceptional item in 2005 related to the gain on sale of land, profit on disposal of a business and the closure costs of two operations.

Dividends and earnings per share

The final dividend is proposed to be 6.36p per share and would result in a total unchanged dividend of 10.05p per share for the year. This dividend is covered 1.4 times by earnings before exceptional items.

Earnings per share excluding exceptional items are 14.1p (2005: 10.7p per share). Basic earnings per share from continuing activities are 18.1p per share (2005: 11.8 p per share).

Taxation

The overall rate of tax is 29 per cent (2005: 29 per cent). Profits are mostly earned in jurisdictions with a higher rate of tax than the UK but certain incentives for investment in locations such as China enable the overall rate to be held below the standard rate for the UK. There are unrelieved tax losses carried forward in the UK arising from the additional special cash contributions paid to pension schemes.

Treasury and borrowings

	2006 £million	2005 £million
Net borrowings	**71.0**	47.1
Cash generated from operations	**32.1**	58.3
Capital expenditure	**20.6**	15.6
	Days	Days
Debtors	**53**	50
Creditors	**43**	44
Inventory	**72**	74

The group borrowing facilities are mainly provided by a £70 million committed unsecured multi-currency facility which expires in 2011; there are also unsecured overdraft facilities provided in the UK, USA and Germany by major clearing banks. The borrowing facilities available to the group amounted to £175.5 million (2005: £168.9 million).

The policy of the group is to minimise in a cost effective manner the risks of potentially adverse changes in exchange rates, interest rates, the cost of copper and other key raw materials. These risks are managed by the use of forward contracts, swaps or other derivative instruments. See note 20 on page 53.

The major currencies to which the group is exposed other than its reporting currency are the US dollar, the euro and the Chinese yuan. The multi-currency facility provided borrowings of US$124 million at the end of December 2006 and is the basis of the hedge against differences arising from the translation of overseas assets denominated in US dollars. There are also euro borrowings in the local operating companies which provide a natural hedge against the euro denominated assets. The net effect of changes since 2005 in foreign currency exchange rates used to translate operating profit and revenue were an increase of £0.3 million and a reduction of £5.1 million respectively.

The total net borrowings at the end of 2006 were £71.0 million (2005: £47.1 million). The increase in borrowings is set out in detail in the consolidated cash flow statement on page 37. The major factors were the acquisition of Apsco in November 2006, special cash contributions to the pension schemes, the need for increased working capital for growth in revenue and the increase in the value of stocks of copper metal held to cover the transitional arrangements between suppliers.

There has been no major change in the credit terms with respect to either debtors or creditors.

At the end of December the group's net gearing was 45 per cent (2005: 31 per cent).

Acquisition

On 6 November we announced the acquisition of Apsco. The consideration was £15.2 million, the costs of acquisition were £0.1 million and the fair value of assets amounted to £8.8 million including intangible assets other than goodwill of £1.1 million. The revenue for the two months since acquisition was £5.0 million and the operating profit was £0.4 million.

Pensions

The group operated nine significant defined benefit pension schemes in the UK and two overseas. During the year six of the schemes in the UK merged into one and this and the remaining three schemes will merge in April 2007. From this date the employee contributions will increase or accrual rates will reduce. Pensionable salaries in these schemes have also been frozen for three years. These changes will reduce the future ongoing service and administration costs. The curtailment in future benefits resulting from the freeze in pensionable salaries amounting to £8.8 million has been treated as an exceptional item in the group income statement.

As part of the agreement to these changes the Company has committed to eliminate the IAS19 deficit as re-measured each year over the next eight years and to an additional special contribution of £5.5 million. Payments of cash into the funds totalled £11.4 million (2005: £14.1 million).

The present value of liabilities has reduced by £8.8 million. The market value of assets of the pension schemes have increased by £26.4 million which is £9.4 million better than actuarial expectations. Mainly as a result of these changes and cash contributions, the deficit of the pension schemes has reduced from £90.2 million at December 2005 to £72.6 million at the end of 2006.

Outlook

Our established markets are stable and the group is poised for further growth in the expanding markets in China and India with a strong foundation of new product introductions. The continued transfer of manufacturing to low labour cost areas is achieving further improvement in profitability.

The acquisition of Apsco in 2006 completes the transformation of our electronic manufacturing services business into a global player.

We remain confident about the future growth in revenue for 2007 and beyond.

Neil A Rodgers
Chief Executive
16 March 2007

Roderick W Weaver
Finance Director
16 March 2007

Directors and Company Secretary

John W Newman (61)
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 (53)
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 (56)
Finance Director

Appointed to the Board in 1995. A Chartered Accountant who was previously with AB Electronic Products Group PLC.

James W Armstrong (59)
Corporate Development Director
Chairman of the Corporate Governance Committee

Appointed to the Board in 1998. A Chartered Accountant previously with Newship Group Limited. Joined TT electronics plc in 1988.

Timothy H Reed (66)
Senior Independent non-executive Director
Chairman of the Remuneration Committee
Member of the Audit and Nominations Committees.

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.

Sir Laurence Magnus (51)
Independent non-executive Director
Member of the Audit, Remuneration, Nominations and Corporate Governance Committees.

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 Income & Capital Investment Trust plc, The Cayenne Trust plc and Climate Exchange 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.

David S Crowther (61)
Independent non-executive Director
Chairman of the Audit Committee
Member of the Remuneration and Nominations Committees.

Appointed to the Board in 2005. A Chartered Accountant who was a senior partner with PricewaterhouseCoopers LLP. Currently a member of the Professional Oversight Board, a part of the Financial Reporting Council and a Director of the Financial Ombudsman Service Limited.

David E A Crowe (67)
Non-executive Director
Member of the Corporate and Social Responsibility Committee.

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.

Wendy J Sharp ACA (41)
Group Company Secretary
Member of the Corporate Governance and Corporate and Social Responsibility Committees.

Appointed 1 January 2007.

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

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 68, all operate in the electronic and electrical sectors.

Results and dividends

The group's profit on ordinary activities before taxation was £39.3 million (2005: £26.8 million) and after taxation was £28.0 million (2005: £13.0 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 (2005: 6.36p) to be paid on 25 May 2007 to ordinary shareholders on the register at 18 May 2007 which, together with the interim dividend paid on 26 October 2006, makes a total of 10.05p for the year (2005: 10.05p).

Acquisitions

On 6 November 2006 the group announced the acquisition of Apsco Holdings, Inc and its subsidiary which now trades as TT Apsco, Inc in the USA. Further details are set out in note 25 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 are listed on page 20 with brief biographical notes. All the Directors held office throughout the year.

At the forthcoming Annual General Meeting and in accordance with the Articles of Association R W Weaver, D S Crowther and D E A Crowe retire by rotation and T H Reed retires in accordance with the Code on Corporate Governance. R W Weaver, D S Crowther, D E A Crowe and T H Reed being eligible, offer themselves for re-election.

Directors' interests

The Directors of the Company at 31 December 2006 held beneficial interests in the following numbers of the Company's ordinary shares of 25p each on 1 January 2006, 31 December 2006 and 9 March 2007:

	31 Dec 2006 and 9 Mar 2007 Ordinary shares	1 Jan 2006 Ordinary shares
J W Newman	**16,242,627**	16,242,627
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**	138,634
D E A Crowe	**48,454**	48,454
Sir Laurence Magnus	**16,685**	16,685
D S Crowther	**10,000**	10,000

The following Directors of the company held non-beneficial interests in the following number of the Company's ordinary shares of 25p each on 1 January 2006, 31 December 2006 and 9 March 2007:

	31 Dec 2006 and 9 Mar 2007 Ordinary shares	1 Jan 2006 Ordinary shares
J W Newman	**10,182,437**	10,182,437
D E A Crowe	**3,600**	–

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

The interests of the Directors in the Company's share options and Long Term Incentive Plan are shown in the Directors' remuneration report on pages 28 to 32.

Share capital
The share capital during the year and the number of ordinary shares reserved for issue are shown in note 14 to the consolidated financial statements.

Annual General Meeting
The Notice of the Company's 2007 Annual General Meeting is set out on pages 69 and 70.

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.

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 2006.

Substantial shareholdings
Following the implementation of the EU Transparency Directive effected by the new Disclosure and Transparency Rules (DTR) made by the Financial Services Authority, there has been a change in the basis on which we disclose certain major interests in the share capital of the Company. At 9 March 2007 the Company had received notifications under DTR 5 that the following entities held disclosable interests in the Company:

	Number	%
Barclays PLC	9,692,271	6.2
BlackRock, Inc	7,865,268	5.0
Legal & General Group plc	5,606,671	3.6

In addition to the above notifications, at 9 March 2007 the Company had been notified of the following disclosable interests which represented 3 per cent or more of the existing issued 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

(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 has been 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 43 days of average supplies for the year (2005: 44 days).

Corporate governance
The application of the principles and provisions of the Combined Code is set out in the Directors' report on corporate governance. This also includes details of the Company's policies with regard to corporate social responsibility.

Auditors
Grant Thornton UK LLP have expressed their willingness to continue in office as Auditors and a resolution will be proposed to reappoint them at the Annual General Meeting.

The Auditors' responsibilities are set out on pages 33 and 59 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 responsible for the preparation of financial statements for each financial year in accordance with applicable law and regulations.

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 and Article 4 of the IAS Regulation.

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's website.

After making appropriate enquiries, the Directors are satisfied 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.

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

By order of the Board:

Wendy J Sharp
Secretary

16 March 2007

The Company is committed to achieving and maintaining high standards of corporate governance. The principles of good corporate governance set out in Section 1 of the Combined Code ("Code") contained in the Listing Rules of the Financial Services Authority have been complied with throughout the year ended 31 December 2006 and this compliance has continued through to the date of this report.

The Board

The Board's main roles are to provide leadership to the management of the group, determine the group's strategy and ensure that the agreed strategy is implemented. In addition the Board has reserved certain specific matters to itself for decision, including financial policy, acquisitions and disposal policy and approval of major capital expenditure projects. It also appoints members of the Board, 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. It regularly reviews the process of identifying, evaluating and managing the principal risks faced by the group and the effectiveness of the group's system of internal control.

During 2006 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 because he has served on the Board for more than nine years. T H Reed's background is as a practising lawyer, he has no financial dependence on the Company and has a strong and independent voice on the Board. He is free from any relationship which could materially interfere with the exercise of his independent judgement and in the Board's view is independent in accordance with the guidance set out in the Code. As in previous years when he was endorsed at the AGM he will be put forward for re-election at the Annual General Meeting in 2007. D S Crowther 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. All 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

The Company has an executive Chairman and a Chief Executive between whom the areas of responsibility are clearly defined. 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 is responsible for the operations of the group, 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.

Board procedures and performance evaluation

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.

During the year the Board conducted an evaluation of its performance covering amongst other matters the 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 reports and 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 inspection by shareholders at the Annual General Meeting) and their duties are as follows:

a) Audit Committee

The Audit Committee comprises the independent non-executive Directors and is chaired by D S Crowther. The Committee's duties include reviewing and advising the Board on the appointment and remuneration of external auditors and the Committee reviews the effectiveness of the Auditors in line with the requirements of the Code. The nature and extent of non-audit services provided by the Auditors are also monitored to ensure that their independence and objectivity are maintained. 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' assessment of internal audit and other internal controls and management's response are all subject to review by the Committee. It also reviews and monitors the scope and 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 Audit Committee conducts risk management assessments and recommends to the Board any changes to the Register of Principal Risks. 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 five times and all three of the independent non-executive Directors attended all the meetings. Two of the meetings were attended by 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 a questionnaire completed by the members of the Committee.

b) Remuneration Committee

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

c) Nominations Committee

The Nominations Committee comprises the independent non-executive Directors and the executive Chairman. The Chairman of the Committee is the executive Chairman. The Committee meets at least once annually and otherwise as and when necessary to make recommendations to the Board; it has an established procedure in place for making new Board appointments and for the appointment of members to the Audit and Remuneration Committees. During the year the Committee met twice, during which it carried out an assessment of its performance.

Communications with shareholders

In addition to the dissemination of such information that is necessary to maintain an orderly market in the shares of the Company J W Newman, N A Rodgers and R W Weaver meet institutional investors immediately after publication of the annual and interim results. The Company also maintains a regular dialogue with institutional shareholders and analysts. Trading updates and press releases are issued as appropriate and the Company's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings. Information provided at the analysts' 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.

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. 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.

During 2006 a system using standardised software which documents key controls and procedures has been implemented. It is expected that this process will be completed in 2007. This system will assist in ensuring that business risks, procedures and controls are better analysed and documented, the effectiveness of internal controls thoroughly evaluated, and that there are enhanced mechanisms for monitoring and follow-up in place throughout the group.

Business risk evaluation takes place at group level as part of the annual budget preparation cycle and at the monthly management meetings of operating companies. Having identified risks, each operating company then monitors and reviews them on a regular basis.

The group's risk manager maintains the group register of principal risks and reports to the Audit Committee at least twice per year and more frequently, as required. The current principal risks of the group are subject to review at each Board meeting.

The risk management procedures and systems of internal control are designed to identify and assess the significant risks which the group faces and to manage them appropriately. It should be recognised that such systems can only provide reasonable and not absolute protection against material misstatement or loss.

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 of the group.
- 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 a 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 consistently, accurately and in compliance with group policy and relevant accounting standards.
- 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, risk 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 2006 and the period since then to the date of this report and have taken appropriate actions for improvement where necessary.

Social responsibility

The Corporate and Social Responsibility Committee reports to the Board on health, safety and environmental matters across the group. This Committee, chaired by the Chief Executive, also comprises the group risk manager, the group legal counsel, the Company Secretary, and one non-executive Director. The Committee met once during 2006 and has had one meeting to date in 2007.

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 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.

Health and safety

The Directors have an obligation to comply with all relevant legislation and codes of practice and acknowledge the importance of health and safety in all group activities. The group seeks to reduce the incidence of accidents, work-related ill-health, emissions, waste and dangerous occurrences and strives to achieve and maintain safe conditions of work for all employees and sub-contractors. The group risk manager is responsible for reporting health and safety statistics to the Chief Executive and Divisional Chief Executive responsible for the relevant operating companies. The Chief Executive has the responsibility for monitoring appropriate standards of health and safety for the group. In 2007 the group will further encourage a culture in which all employees ensure that they, their colleagues and members of the general public are kept safe from potential incidents and hazards.

Environmental policy

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 ISO 14001. At the end of 2006, 13 of the 29 major manufacturing sites had achieved this accreditation. The group has the goal of increasing this during 2007. Group companies continue to encourage energy efficient means of manufacture, to seek to reduce the use of dangerous, volatile or environmentally damaging chemicals where possible, re-use and recycle waste, and arrange for the responsible disposal of other waste.

Charitable donations

During the year the group contributed £50,000 (2005: £50,000) for charitable purposes. Employees across the group regularly fund-raise for charity.

There were no political contributions.

Approved by the Board on 16 March 2007 and signed on its behalf by:

Wendy J Sharp
Secretary

Directors' remuneration report

This report has been prepared in accordance with Schedule 7A of the Companies Act 1985 ("Act") and complies with the relevant requirements of the Listing Rules of the Financial Services Authority. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company to be held on 16 May 2007.

The Act requires 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 Act. 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 seven times and all members of the Committee attended all the meetings. In respect of the year, the Committee carried out a self assessment of its performance based on a questionnaire completed by the members of the Committee.

The role of the Committee is to recommend to the Board the policy for the remuneration 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 and the terms and conditions of service.

Remuneration policy

The objectives of the group's remuneration policy are to recruit, retain and motivate 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 senior executives with a basic salary that is competitive with the basic salary paid in other comparable companies. In addition a performance linked element of remuneration is intended to provide an opportunity to receive increased remuneration subject to meeting challenging performance conditions.

In February 2006 the Remuneration Committee decided to grant the executive Directors service contracts as the Committee considered that this reflects both current market practice and the appropriate balance between the interests of the Company and the individual Director. These contracts include twelve month non-compete clauses and standard provisions for summary termination and are terminable on twelve months notice from either side. Service contracts have been entered into with the current executive Directors (other than the executive Chairman) on this basis.

For 2006 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 were £15,000 and £7,500 respectively for each £1 million of the group's profit before taxation and exceptional items over £24.7 million. Bonuses of £87,000 and £43,500 are payable to N A Rodgers and J W Armstrong respectively. The remuneration for R W Weaver includes a bonus of £73,000 which was based on meeting certain predetermined performance criteria including the effectiveness of financial control over cash and working capital, tax efficiency and contribution to profit improvement set out by the Remuneration Committee. All bonuses are capped at 100 per cent of salary. During 2006 R W Weaver received a discretionary bonus in respect of 2005 of £40,000.

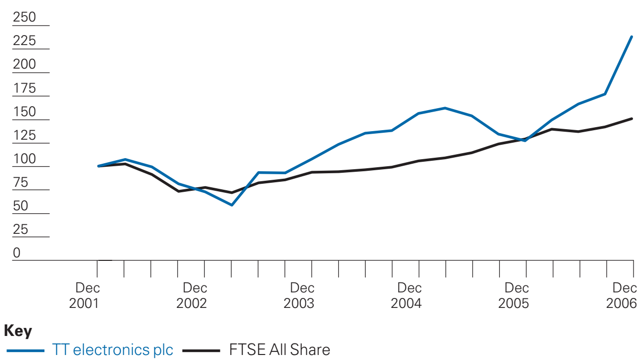
The Remuneration Committee has appointed Inbucon Consulting to carry out a review of the remuneration packages of the executive Directors. The initial results of this work are expected to be received in mid 2007.

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 profit before taxation. The bonus for 2007 is calculated as the aggregate of 2 per cent of the excess over budget plus 2 per cent of the growth in profit over the previous year for businesses in the divisions for which they are responsible. The Company Secretary may be paid a bonus at the discretion of the Remuneration Committee.

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

Total shareholder returns

The Company's total shareholder return performance for the five years to 31 December 2006 is shown on the graph below compared with the performance achieved by the FTSE All Share companies. The FTSE All Share has been selected as a broad equity market index comparison.



Long term incentive plan

In October 2005, the Long Term Incentive Plan 2005 ("LTIP") was adopted. Under the LTIP participants may receive annual awards of up to 100 per cent of basic salary per annum. This is a 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.

The first awards under the scheme were made in January 2007 and could result in up to 544,449 shares being issued.

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 three years after the date of grant. The initial performance criterion is that the group'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 will vest. For an award to vest in full, the group'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, the number of shares vesting will be calculated on a proportional basis.

It is anticipated that further awards will be made later this year, which will be based on the performance of the group for 2007 onwards.

Summary of closed share option schemes

The Committee's policy is for the LTIP to be the sole means of providing long-term incentives outside of salary and bonus and all existing share option schemes are 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 of annual growth in the group's 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. The options granted to the executive Directors totalling 80,550 shares in June 1999 have lapsed.

Non-executive Directors
The remuneration of each of the non-executive Directors is decided by the other members of the Board. The remuneration increases in 2006 were in line with inflation and the duties performed. 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 the numbers of 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 2006. The amount of each element in the remuneration received and receivable by the Directors in the year including basic salary, bonus and fees and benefits in kind is:

	Salary/fees £000	Bonus £000	Benefits £000	2006 Total £000	2005 Total £000
Executive Directors					
J W Newman	**485**	**–**	**72**	**557**	542
N A Rodgers	**255**	**87**	**32**	**374**	279
R W Weaver	**207**	**113**	**28**	**348**	234
J W Armstrong	**160**	**44**	**22**	**226**	179
Non-executive Directors					
T H Reed	**36**	**–**	**–**	**36**	35
D E A Crowe	**27**	**–**	**–**	**27**	26
Sir Laurence Magnus	**27**	**–**	**–**	**27**	26
D S Crowther	**29**	**–**	**–**	**29**	26
M S Evans (retired 10 Jan 2005)	**–**	**–**	**–**	**–**	1
	1,226	**244**	**154**	**1,624**	1,348

The bonus for R W Weaver includes £40,000 in respect of 2005.

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
During the year each executive Director was a member of the Company's defined benefit pension scheme, which covers most senior employees of the Company.

	Increase in accrued pension £000	Accrued pension at 31 Dec 2006 £000	Transfer value at 31 Dec 2006 £000	Increase in transfer value £000	Transfer value at 31 Dec 2005 £000
J W Newman	**10**	**243**	**3,077**	**192**	2,857
N A Rodgers	**15**	**74**	**760**	**165**	561
R W Weaver	**5**	**83**	**951**	**90**	849
J W Armstrong	**5**	**59**	**780**	**75**	696

Notes

a) 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.

b) The increase in accrued pension during the year excludes any increases for inflation.

c) The increase in transfer value during the year is net of employee contributions made to the scheme.

d) Each executive Director has a normal retirement date of his 65th birthday.

e) No actuarial reduction is made in respect of early retirement between the ages of 60 and 65.

f) Accrued pension is that which would be paid annually on retirement at normal retirement date based on pensionable service and final pensionable salary to 31 December 2006.

g) 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.

h) 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. Pensionable salaries have been frozen at the 6 April 2006 level for three years.

i) 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.

Long Term Incentive Plan

The first awards under this plan were made on 16 January 2007 to the executive Directors of the Company:

	Maximum number of shares
J W Newman	117,596
N A Rodgers	61,878
R W Weaver	50,288
J W Armstrong	38,754

No consideration is payable for the award, the terms of which were set out earlier in this report.

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 2006	Lapsed in the period	31 December 2006	Exercise price pence	Exercise period
J W Newman	47,100	47,100	**0**(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
	1,219,755	47,100	**1,172,655**		
N A Rodgers	13,050	13,050	**0**(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
	363,696	13,050	**350,646**		

	1 January 2006	Lapsed in the period	31 December 2006	Exercise price pence	Exercise period
R W Weaver	17,150	17,150	**0**(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	Apr 2008 – Apr 2015
	646,860	17,150	**629,710**		
J W Armstrong	3,250	3,250	**0**(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	Apr 2008 – Apr 2015
	446,023	3,250	**442,773**		

The closing middle market prices for an ordinary share of 25p of the Company on 31 December 2006 and 2005 as derived from the Stock Exchange Daily Official List were 260.0p and 147.0p respectively. During the year the middle market price of TT electronics plc ordinary shares ranged between145.5p and 260.0p.

Approved by the Board on 16 March 2007 and signed on its behalf by:

Wendy J Sharp
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 2006 which comprise the accounting policies for the consolidated financial statements, 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 30. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on page 59 on the Company financial statements of TT electronics plc for the year ended 31 December 2006 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 whether in our opinion the information given in the Directors' report is consistent with the consolidated financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, 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 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 group 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 consolidated 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 2006 and of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditors, Chartered Accountants
London, 16 March 2007

Consolidated income statement
for the year ended 31 December 2006

	Note	2006 £million	2005 £million
Continuing operations			
Revenue	1	**600.3**	565.3
Cost of sales		**(485.5)**	(460.3)
Gross profit		**114.8**	105.0
Distribution costs		**(38.8)**	(40.5)
Administrative expenses		**(40.8)**	(35.2)
Other operating expenses		**(0.1)**	(1.0)
Other operating income		**1.1**	1.6
Operating profit before exceptional items	1	**36.2**	29.9
Exceptional items	4	**8.8**	2.1
Operating profit		**45.0**	32.0
Finance income	2	**15.3**	12.0
Finance costs	2	**(21.0)**	(17.2)
Profit before taxation	1	**39.3**	26.8
Taxation	5	**(11.3)**	(8.5)
Profit for the year from continuing activities		**28.0**	18.3
Discontinued operation			
Loss for the year from discontinued operation		**–**	(5.3)
Profit for the year attributable to shareholders		**28.0**	13.0
Earnings per share	7		
From continuing and discontinued operations			
– basic		**18.1p**	8.4p
– diluted		**17.9p**	8.3p
From continuing operations			
– basic		**18.1p**	11.8p
– diluted		**17.9p**	11.7p

Consolidated balance sheet
at 31 December 2006

	Note	2006 £million	2005 £million
Assets			
Non-current assets			
Property, plant and equipment	9	**108.6**	118.0
Goodwill	10	**53.1**	52.5
Other intangible assets	11	**16.0**	15.7
Deferred tax assets	21	**21.0**	30.0
Total non-current assets		**198.7**	216.2
Current assets			
Inventories	12	**99.8**	93.9
Trade and other receivables	13	**104.6**	95.1
Financial derivatives	20	**0.6**	–
Cash and cash equivalents	13	**9.5**	24.0
Total current assets		**214.5**	213.0
Total assets		**413.2**	429.2
Liabilities			
Current liabilities			
Short-term borrowings	19	**11.5**	4.0
Financial derivatives	20	**–**	0.4
Trade and other payables	24	**87.3**	94.8
Current tax payable		**1.3**	4.9
Provisions for liabilities	23	**0.9**	1.6
Total current liabilities		**101.0**	105.7
Non-current liabilities			
Long-term borrowings	19	**69.0**	67.1
Deferred tax provision	21	**5.4**	6.1
Pensions and other post employment benefits	29	**72.6**	90.2
Provisions for liabilities	23	**0.7**	1.0
Other non-current liabilities	24	**7.5**	7.4
Total non-current liabilities		**155.2**	171.8
Total liabilities		**256.2**	277.5
Net assets		**157.0**	151.7
Equity			
Share capital	14	**38.7**	38.7
Share options reserve	15	**0.8**	0.5
Hedging and translation reserve	16	**(6.1)**	3.5
Retained earnings	17	**121.6**	107.0
Minority interests		**2.0**	2.0
Total equity	18	**157.0**	151.7

Approved by the Directors on 16 March 2007 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 2006

	2006 £million	2005 £million
Profit for the year	**28.0**	13.0
Exchange differences on net foreign currency investments	**(9.6)**	5.7
Income tax on foreign currency exchange differences	**–**	0.7
Actuarial net gain/(loss) on defined benefit pension schemes	**3.2**	(26.0)
Deferred tax on actuarial gain or loss	**(1.0)**	7.8
Total recognised income and expense for the year attributable to shareholders	**20.6**	1.2

Consolidated cash flow statement
for the year ended 31 December 2006

	Note	2006 £million	2005 £million
Operating activities			
Profit for the year		**28.0**	13.0
Adjustments for:			
Finance costs		**5.7**	6.1
Taxation		**11.3**	5.2
Depreciation of property, plant and equipment		**23.2**	26.8
Amortisation of intangible assets		**9.1**	10.4
Share based payment expense		**0.3**	0.3
Gain on disposal of property, plant and equipment		**(2.0)**	(12.0)
Gain on disposal of subsidiary		**–**	(4.1)
Exceptional pension curtailment gain	4	**(8.8)**	–
Other non cash items		**0.1**	(0.2)
Additional payments to pension funds		**(7.0)**	(9.3)
Operating cash flow before movements in working capital		**59.9**	36.2
Decrease in property assets		**–**	0.1
(Increase)/decrease in financial derivatives		**(1.0)**	0.7
(Increase)/decrease in inventories		**(0.8)**	5.1
(Increase)/decrease in receivables		**(5.6)**	12.1
(Decrease)/increase in payables		**(14.0)**	0.1
Exchange differences		**(6.4)**	4.0
Cash generated from operations		**32.1**	58.3
Tax paid		**(7.0)**	(8.7)
Net cash from operating activities		**25.1**	49.6
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(20.6)**	(15.6)
Proceeds from sale of property, plant and equipment and grants received		**7.1**	21.3
Development expenditure		**(8.6)**	(8.7)
Acquisition of subsidiary net of cash acquired	25	**(14.7)**	(10.1)
Net cash proceeds from sale of subsidiaries		**–**	7.8
Net cash used in investing activities		**(36.8)**	(5.3)
Cash flows from financing activities:			
Interest paid (net)		**(3.8)**	(3.4)
Net changes in long-term borrowings and finance lease liabilities		**10.0**	7.2
Dividends paid		**(15.6)**	(15.6)
Net cash used in financing activities		**(9.4)**	(11.8)
Net (decrease)/increase in cash and cash equivalents		**(21.1)**	32.5
Cash and cash equivalents at beginning of period		**22.3**	(9.6)
Exchange difference		**(0.5)**	(0.6)
Cash and cash equivalents at end of period		**0.7**	22.3
Cash and cash equivalents comprise:			
Cash and cash equivalents	13	**9.5**	24.0
Bank overdrafts	19	**(8.8)**	(1.7)
		0.7	22.3

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.

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 to IFRS of certain property, plant and equipment. The revalued amount for property, plant and equipment is accounted for thereafter as deemed cost.

The group has not adopted IFRS7 'Financial Instruments: Disclosures' and IFRS8 'Operating Segments' which are not yet effective. These standards will take effect from the 2007 and 2009 financial years respectively and are not expected to have a significant impact on the financial statements.

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.

Business combinations prior to 1 January 2004 have not been restated onto an IFRS basis due to the application of an exemption under IFRS1.

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
Customer relationships	– 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. By application of an exemption under IFRS1 the cumulative translation differences for all foreign operations were deemed to be zero at the transition date to IFRS. 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 or that they will reverse. 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:

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 instruments 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 purchase 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 acquired Apsco Holdings, Inc (Apsco) during the year. The allocation of fair values to the tangible assets of Apsco and the identification and valuation of intangible assets affects the goodwill recognised in respect of this acquisition.

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 £12.8 million at 31 December 2006 is considered to be fairly stated.

ii) Impairment of goodwill
The carrying amount of goodwill is £53.1 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 process 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 £72.6 million at 31 December 2006 has been calculated using the assumptions set out in note 29. A deferred tax asset of £21.0 million has been recognised at 31 December 2006 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 or upon reduction of the liability by other than payment.

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, power control modules.

electronic manufacturing services – PCB assemblies, high speed technology backplane assemblies.

Electrical

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

power transmission – electrical cables, electrical connection systems, insulation products, power transmission accessories.

	Revenue		Sector result	
	2006 £million	2005 £million	2006 £million	2005 £million
Electronic				
– sensors and electronic systems	**184.8**	195.0	**11.6**	9.1
– electronic components	**139.9**	129.6	**11.4**	8.7
– electronic manufacturing services	**72.1**	60.3	**1.3**	2.0
Total electronic	**396.8**	384.9	**24.3**	19.8
Electrical				
– power systems	**63.1**	50.4	**5.4**	4.6
– power transmission	**140.4**	130.0	**6.5**	5.5
Total electrical	**203.5**	180.4	**11.9**	10.1
Total	**600.3**	565.3	**36.2**	29.9
Exceptional operating items (note 4)			**8.8**	2.1
Operating profit – total			**45.0**	32.0
Finance income (note 2)			**15.3**	12.0
Finance costs (note 2)			**(21.0)**	(17.2)
Profit before tax			**39.3**	26.8
Taxation (note 5)			**(11.3)**	(8.5)
Profit for the year from continuing operations			**28.0**	18.3

There are no significant sales between sectors.

	Assets		Liabilities		Total capital employed	
	2006 £million	2005 £million	2006 £million	2005 £million	2006 £million	2005 £million
Electronic						
– sensors and electronic systems	**114.9**	124.1	**27.5**	35.0	**87.4**	89.1
– electronic components	**118.7**	123.3	**22.8**	21.9	**95.9**	101.4
– electronic manufacturing services	**49.3**	29.8	**17.9**	14.2	**31.4**	15.6
Total electronic	**282.9**	277.2	**68.2**	71.1	**214.7**	206.1
Electrical						
– power systems	**24.6**	22.8	**11.3**	10.0	**13.3**	12.8
– power transmission	**75.2**	73.3	**16.4**	19.7	**58.8**	53.6
Total electrical	**99.8**	96.1	**27.7**	29.7	**72.1**	66.4
Sector assets and liabilities – continuing operations	**382.7**	373.3	**95.9**	100.8	**286.8**	272.5
Pensions and other post employment benefits	**–**	–	**72.6**	90.2	**(72.6)**	(90.2)
Discontinued operation	**–**	1.9	**–**	3.9	**–**	(2.0)
Unallocated assets and liabilities	**30.5**	54.0	**87.7**	82.6	**(57.2)**	(28.6)
Total	**413.2**	429.2	**256.2**	277.5	**157.0**	151.7

The merger of certain UK pension schemes during 2006 precludes the reliable allocation of pension fund deficits to business sectors. Comparatives have been restated accordingly.

1. Segmental reporting continued

	Capital additions		Depreciation and amortisation	
	2006 £million	2005 £million	**2006 £million**	2005 £million
Electronic				
– sensors and electronic systems	**15.1**	10.8	**15.1**	17.5
– electronic components	**8.4**	6.9	**10.1**	10.6
– electronic manufacturing services	**1.5**	1.9	**1.7**	2.0
Total electronics	**25.0**	19.6	**26.9**	30.1
Electrical				
– power systems	**0.9**	1.4	**0.7**	1.1
– power transmission	**3.3**	2.9	**4.7**	5.1
Total electrical	**4.2**	4.3	**5.4**	6.2
Total – continuing operations	**29.2**	23.9	**32.3**	36.3

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	
	2006 £million	2005 £million	**2006 £million**	2005 £million
United Kingdom	**7.2**	7.3	**142.8**	140.7
Rest of Europe	**13.6**	10.4	**70.0**	71.9
North America	**6.7**	5.1	**136.9**	128.9
Rest of the World	**1.7**	1.1	**33.0**	31.8
Total – continuing operations	**29.2**	23.9	**382.7**	373.3

The group operates globally. Revenue by geographical destination is:

	Continuing operations		Discontinued operation		Total	
	2006 £million	2005 £million	**2006 £million**	2005 £million	**2006 £million**	2005 £million
United Kingdom	**159.7**	161.1	**–**	1.9	**159.7**	163.0
Rest of Europe	**203.9**	199.9	**–**	15.5	**203.9**	215.4
North America	**148.0**	131.7	**–**	0.6	**148.0**	132.3
Rest of the World	**88.7**	72.6	**–**	0.1	**88.7**	72.7
	600.3	565.3	**–**	18.1	**600.3**	583.4

2. Finance costs – net

	Continuing operations		Discontinued operation		Total	
	2006 £million	2005 £million	**2006 £million**	2005 £million	**2006 £million**	2005 £million
Interest receivable	**0.8**	0.6	**–**	–	**0.8**	0.6
Expected return on pension scheme assets	**14.5**	11.4	**–**	1.4	**14.5**	12.8
Finance income	**15.3**	12.0	**–**	1.4	**15.3**	13.4
Interest on bank overdrafts and loans	**4.3**	3.4	**–**	0.4	**4.3**	3.8
Interest on finance leases	**0.3**	0.3	**–**	0.1	**0.3**	0.4
Unwinding of the discount on pension scheme liabilities	**16.4**	13.5	**–**	1.8	**16.4**	15.3
Finance costs	**21.0**	17.2	**–**	2.3	**21.0**	19.5
Finance costs – net	**5.7**	5.2	**–**	0.9	**5.7**	6.1

3. Profit for the year

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

	Continuing operations		Discontinued operation		Total	
	2006 £million	2005 £million	**2006 £million**	2005 £million	**2006 £million**	2005 £million
Depreciation of property, plant and equipment	**23.2**	25.8	**–**	1.0	**23.2**	26.8
Amortisation of intangible assets included in cost of sales	**9.1**	10.4	**–**	–	**9.1**	10.4
Net foreign exchange gains	**(0.4)**	(0.4)	**–**	(0.1)	**(0.4)**	(0.5)
Cost of inventories recognised as an expense	**485.5**	460.3	**–**	19.5	**485.5**	479.8
Employee emoluments	**153.4**	157.5	**–**	7.3	**153.4**	164.8
Fees to group Auditors						
– company statutory audit	**0.2**	0.1	**–**	–	**0.2**	0.1
Fees to group Auditors and associates						
– statutory audit of subsidiaries	**0.7**	0.5	**–**	–	**0.7**	0.5
– tax services	**0.1**	0.1	**–**	–	**0.1**	0.1
– audit of group pension schemes	**0.1**	0.1	**–**	–	**0.1**	0.1
Fees to other Auditors						
– statutory audit of subsidiaries	**0.1**	0.3	**–**	–	**0.1**	0.3
– tax services	**0.2**	0.5	**–**	–	**0.2**	0.5
Government grants credited	**(0.6)**	(0.9)	**–**	–	**(0.6)**	(0.9)

4. Exceptional items

	2006 £million	2005 £million
Curtailment of pension scheme benefits	**8.8**	–
Net gain on sale of land and 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)
	8.8	2.1

The pensionable salaries of members of the UK defined benefit schemes have been frozen for three years. The consequent reduction in the liabilities of the schemes has been recognised in the actuarial valuations of the schemes at 31 December 2006 and under the requirements of IAS19 is reported in operating profit.

Exceptional items are analysed by sector:

	2006 £million	2005 £million
– sensors and electronic systems	**1.5**	(6.7)
– electronic components	**4.1**	–
– electronic manufacturing services	**1.4**	–
– power systems	**0.6**	4.1
– power transmission	**1.2**	4.7
	8.8	2.1

The group reports income or expenditure as exceptional when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of its financial position.

5. Taxation

	Continuing operations		Discontinued operation		Total	
	2006 £million	2005 £million	**2006 £million**	2005 £million	**2006 £million**	2005 £million
Current tax	**3.6**	11.2	**–**	(4.1)	**3.6**	7.1
Deferred tax (note 21)	**7.7**	(2.7)	**–**	0.8	**7.7**	(1.9)
	11.3	8.5	**–**	(3.3)	**11.3**	5.2

UK tax is calculated at 30 per cent (2005: 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 (2005: 29 per cent). Tax charge in respect of exceptional operating items was £2.6 million (2005: £0.4 million).

The tax charge is explained as follows:

	2006 £million	2005 £million
Profit before taxation		
Continuing operations	**39.3**	26.8
Discontinued operation	**–**	(8.6)
	39.3	18.2
Tax at the UK income tax rate	**11.8**	5.5
Tax rates of non UK subsidiaries	**(0.7)**	0.6
Utilisation of losses not previously recognised	**(5.1)**	(1.7)
Losses for which no deferred tax asset is recognised	**5.6**	2.3
Expenses not deductible for tax purposes	**0.2**	0.2
Items not subject to tax	**–**	(1.2)
Other	**(0.5)**	(0.5)
	11.3	5.2

6. Dividends

The following dividends have been paid in the year:

	2006 pence per share	**2006 £million**	2005 pence per share	2005 £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 25 May 2007. 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.

7. Earnings per share

From continuing and discontinued operations:

	2006 pence per share	2005 pence per share
Basic	**18.1**	8.4
Diluted	**17.9**	8.3

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:

	2006 £million	2005 £million
Profit for the year attributable to shareholders:		
Earnings basic and diluted	**28.0**	13.0

Weighted average number of shares in issue

	2006 million	2005 million
Basic	**154.8**	154.8
Adjustment for share options	**1.4**	1.4
Diluted	**156.2**	156.2

From continuing operations:

	2006 pence per share	2005 pence per share
Basic	**18.1**	11.8
Diluted	**17.9**	11.7

	2006 £million	2005 £million
Profit for the year attributable to shareholders	**28.0**	13.0
Add loss for the year from discontinued operation	**–**	5.3
Earnings from continuing operations	**28.0**	18.3

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

Earnings per share before exceptional items on continuing operations of 14.1p (2005: 10.7p) is based on the profit for the year of £28.0 million (2005: £18.3 million) adjusted for exceptional items of £8.8 million (2005: £2.1 million) less the associated taxation of £2.6 million (2005: £0.4 million).

8. Employees

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

	2006 number	2005 number
By function		
Production	**6,805**	7,216
Sales and distribution	**638**	682
Administration	**497**	532
	7,940	8,430
By sector		
Electronic		
– sensors and electronic systems	**2,601**	2,804
– electronic components	**2,598**	2,597
– electronic manufacturing services	**888**	739
Total electronic	**6,087**	6,140
Electrical		
– power systems	**573**	569
– power transmission	**1,280**	1,464
Total electrical	**1,853**	2,033
Total continuing operations	**7,940**	8,173
Discontinued operation	**–**	257
Total	**7,940**	8,430

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

	2006 £million	2005 £million
Wages and salaries	**128.2**	138.6
Employers' social security charges	**19.1**	19.8
Employers' pension costs	**6.1**	6.4
	153.4	164.8

Remuneration in respect of the Directors was as follows:

	2006 £million	2005 £million
Emoluments	**1.5**	1.2

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

9. Property, plant and equipment

	Land and buildings £million	Plant and equipment £million	Total £million
Cost			
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 1 January 2006	58.9	338.6	397.5
Additions	0.8	19.8	20.6
Acquisition of subsidiaries	0.2	3.6	3.8
Disposals	(2.8)	(55.8)	(58.6)
Exchange translation differences	(2.1)	(13.6)	(15.7)
At 31 December 2006	**55.0**	**292.6**	**347.6**
Accumulated depreciation and impairment			
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 1 January 2006	12.2	267.3	279.5
Depreciation charge for the year	1.6	21.6	23.2
Eliminated on disposals	(1.3)	(54.3)	(55.6)
Acquisition of subsidiaries	0.2	2.0	2.2
Exchange translation differences	(0.3)	(10.0)	(10.3)
At 31 December 2006	**12.4**	**226.6**	**239.0**
Carrying amount:			
At 31 December 2006	**42.6**	**66.0**	**108.6**
At 31 December 2005	46.7	71.3	118.0

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 £2.5 million (2005: £3.0 million) in respect of assets held under finance leases.

10. Goodwill

	£million
Cost	
At 1 January 2005	42.4
Acquisition of subsidiary	5.1
Exchange translation differences	5.0
At 1 January 2006	52.5
Acquisition of subsidiaries (note 25)	6.5
Exchange translation differences	(5.9)
At 31 December 2006	**53.1**

Goodwill is primarily attributed to the following cash generating units:

	£million
BI Technologies	23.2
Optek Technology	17.7
TT electronic integrated systems	5.1
TT Apsco	6.3

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 2007-2016. Budgeted cash flows for 2007 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 9 per cent per annum to calculate their net present value. As a result of these tests, no impairment provisions are considered necessary.

11. Other intangible assets

	Development costs £million	Patents and licences £million	Customer relationships £million	Total £million
Cost				
At 1 January 2005	27.5	3.0	–	30.5
Additions	8.7	–	–	8.7
Retirements	(10.6)	–	–	(10.6)
At 1 January 2006	25.6	3.0	–	28.6
Additions	8.6	–	–	8.6
Acquisitions (note 25)	–	–	1.1	1.1
Retirements	(6.9)	–	–	(6.9)
Exchange translation differences	(0.9)	–	–	(0.9)
At 31 December 2006	**26.4**	**3.0**	**1.1**	**30.5**
Amortisation				
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 1 January 2006	12.4	0.5	–	12.9
Charge for the year	8.7	0.3	0.1	9.1
Retirements	(6.9)	–	–	(6.9)
Exchange translation differences	(0.6)	–	–	(0.6)
At 31 December 2006	**13.6**	**0.8**	**0.1**	**14.5**
Carrying amount				
At 31 December 2006	**12.8**	**2.2**	**1.0**	**16.0**
At 31 December 2005	13.2	2.5	–	15.7

Development costs are amortised over up to three years and are retired when fully written off. Patents and licences are amortised over ten years. Customer relationships are amortised over up to three years.

12. Inventories

	2006 £million	2005 £million
Raw materials	**45.0**	40.0
Work in progress	**22.1**	20.2
Finished goods	**32.7**	33.7
	99.8	93.9

Inventories are stated after deduction of a provision for slow moving and obsolete items of £17.3 million (2005: £16.8 million).

13. Other financial assets and prepayments

	2006 £million	2005 £million
Trade and other receivables		
Trade debtors	**90.8**	77.9
Prepayments	**7.7**	6.8
Other debtors	**4.1**	8.4
Loan to Newship Limited	**2.0**	2.0
	104.6	95.1

Trade debtors are stated net of an allowance for estimated irrecoverable amounts of £2.2 million (2005: £3.9 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.

	2006 £million	2005 £million
Financial derivatives	**0.6**	–

Financial derivatives are the market value of forward currency contracts, an interest rate cap and a copper forward contract, see note 20.

	2006 £million	2005 £million
Cash and cash equivalents	**9.5**	24.0

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.

14. Share capital

	2006 £million	2005 £million
Authorised		
226,000,000 (2005: 226,000,000) ordinary shares of 25p each	**56.5**	56.5
Issued and fully paid		
154,798,103 (2005: 154,798,103) ordinary shares of 25p each	**38.7**	38.7

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

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.

Details of the share options outstanding during the year are:

	2006 Number of share options	2006 Weighted average exercise price (p)	2005 Number of share options	2005 Weighted average exercise price (p)
At 1 January	**7,076,596**	**150.9**	6,951,103	144.4
Granted	**–**	**–**	846,319	205.5
Forfeited	**(1,099,057)**	**135.9**	(611,818)	137.1
Exercised	**–**	**–**	–	–
Expired	**(178,975)**	**340.0**	(109,008)	241.0
At 31 December	**5,798,564**	**147.9**	7,076,596	150.9
Exercisable at 31 December	**Nil**		Nil	

For share options outstanding at 31 December 2006 the range of exercise prices was 80.0p to 359.0p (2005: 80.0p to 359.0p) and the weighted average remaining contractual life was 5.3 years (2005: 6.4 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.

No grants had been made under the Long Term Incentive Plan at 31 December 2006. On 16 January 2007 grants were made under the Long Term Incentive Plan 2005 which may result in the issue of up to 544,449 shares in 2010.

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 binomial option pricing model and the following inputs:

	2005	2004
Share price	205.5p	145.0p
Exercise price	205.5p	145.0p
Expected volatility	25.9%	37.2%
Risk free rate	4.6%	5.2%
Expected dividend yield	4.9%	6.9%

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 (2005: £0.3 million) to the consolidated income statement in respect of share based payments. The charge represents the cost allocated to 2006 in respect of the options issued in 2004 and 2005.

15. Capital reserves

	Share premium account £million	Capital redemption reserve £million	Merger reserve £million	Share options reserve £million	Total £million
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 1 January 2006	–	–	–	0.5	0.5
Share based payments	–	–	–	0.3	0.3
At 31 December 2006	**–**	**–**	**–**	**0.8**	**0.8**

16. Hedging and translation reserve

	£million
At 1 January 2005	(2.9)
Exchange differences on translation of foreign operations	12.1
Exchange differences on US$105 million borrowings	(6.4)
Tax credit	0.7
At 1 January 2006	3.5
Exchange differences on translation of foreign operations	(17.2)
Exchange differences on US$124 million borrowings	7.6
At 31 December 2006	**(6.1)**

17. Retained earnings

	£million
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
Goodwill transferred from merger reserve	(47.3)
Capital reduction	130.7
Dividends paid	(15.6)
At 1 January 2006	107.0
Profit for the year	28.0
Actuarial net gain on defined benefit pension schemes	3.2
Deferred tax thereon	(1.0)
Dividends paid	(15.6)
At 31 December 2006	**121.6**

18. Shareholders' equity

	£million
At 1 January 2005	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
Profit for the year	28.0
Exchange differences on net foreign currency investments	(9.6)
Actuarial net gain on defined benefit pension schemes	3.2
Deferred tax on actuarial gain	(1.0)
Dividends paid	(15.6)
Share based payments	0.3
At 31 December 2006	**157.0**

Details of movements in the constituent elements of shareholders' equity are given in notes 14, 15, 16 and 17.

19. Borrowings

	2006 £million	2005 £million
Bank overdrafts	**8.8**	1.7
Bank loans	**67.6**	65.2
Finance leases	**4.1**	4.2
	80.5	71.1

The borrowings are repayable as follows:

	2006 £million	2005 £million
In one year or less	**11.5**	4.0
In more than one year but not more than two years	**1.0**	0.2
In more than two years but not more than three years	**0.2**	0.6
In more than three years but not more than four years	**1.3**	0.6
In more than four years but not more than five years	**63.6**	1.4
In more than five years	**2.9**	64.3
In more than one year	**69.0**	67.1

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

	2006 £million	2005 £million
Sterling	**4.1**	3.9
US dollar	**70.6**	61.2
Euro	**4.6**	4.4
Other	**1.2**	1.6

Borrowings of £69.4 million (2005: £67.4 million) are at fixed interest rates with an average maturity of 1.4 years (2005: 1.7 years).

19. Borrowings continued

The average interest rates at the balance sheet date were:

	2006 %	2005 %
Bank overdrafts	**7.1**	7.3
Bank loans	**5.6**	4.6
Finance leases	**7.7**	7.7

The estimated fair value of borrowings is:

	2006 £million	2005 £million
Bank overdrafts	**8.8**	1.7
Bank loans	**67.6**	65.2
Finance leases	**4.1**	4.2

The borrowing facilities available to the group amounted to £175.5 million (2005: £168.9 million).

At 31 December 2006, the group had available £9.4 million (2005: £27.3 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.

Hedge of net investment

The group has designated $124 million (2005: $105 million) of its borrowings as a currency hedge of its US dollar denominated net assets. The hedge increased to $124 million from $105 million on 1 December 2006. This is an effective partial hedge. The net result of translating the US dollar net assets and the $124 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 net assets.

20. Derivative financial instruments

	2006 Assets £million	2006 Liabilities £million	2005 Assets £million	2005 Liabilities £million
Forward foreign currency contracts	**0.2**	**–**	–	0.1
Interest rate cap	**0.1**	**–**	–	–
Copper forward contract	**0.3**	**–**	–	0.3
	0.6	**–**	–	0.4

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. These are not accounted for as hedges. In January 2006 the group 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. A copper forward sales contract at 31 December 2006 has been accounted for as a fair value hedge. The carrying value of the relevant stock was decreased by £0.3 million.

21. Deferred tax

	Accelerated capital allowances £million	Deferred development costs £million	Tax losses £million	Retirement benefit obligations £million	Other £million	Total £million
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
Charge to equity	–	–	–	7.8	–	7.8
Exchange differences	(0.4)	–	–	–	0.1	(0.3)
At 1 January 2006	(4.8)	(4.5)	0.3	27.1	5.8	23.9
Profit and loss for the year	(1.7)	1.0	(0.3)	(4.2)	(2.5)	(7.7)
Acquisition (note 25)	0.2	–	–	–	0.2	0.4
Charge to equity	–	–	–	(1.0)	–	(1.0)
Exchange differences	0.4	0.1	–	–	(0.5)	–
At 31 December 2006	**(5.9)**	**(3.4)**	**–**	**21.9**	**3.0**	**15.6**

	2006 £million	2005 £million
Deferred tax assets	**21.0**	30.0
Deferred tax liabilities	**(5.4)**	(6.1)

At 31 December 2006 the group has unused tax losses of £14.1 million (2005: £4.9 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 (2005: £2.8 million).

22. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2006 £million	2005 £million	2006 £million	2005 £million
Amounts payable under finance leases:				
One year or less	**0.6**	0.6	**0.3**	0.2
Between one and five years	**2.0**	2.1	**0.9**	0.9
Over five years	**6.1**	6.5	**2.9**	3.1

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 (2005: 8 per cent). The fair value of the lease obligation approximates to carrying amount. Total minimum lease payments include £4.6 million (2005: £5.0 million) of future finance costs.

23. Provisions for liabilities

	Environmental £million	Legal and other claims £million	Total £million
At 1 January 2006	1.8	0.8	2.6
Utilised	(0.2)	(0.2)	(0.4)
Transfer (to)/from consolidated income statement	(0.5)	(0.1)	(0.6)
At 31 December 2006	**1.1**	**0.5**	**1.6**

The environmental provision utilised in the year relates to AEI Cables production sites; the transfers to income statement arise from reduced estimates of costs to be incurred at former production sites in the UK and the USA.

The total provisions are analysed:

	2006 £million	2005 £million
Non-current	**0.7**	1.0
Current	**0.9**	1.6
	1.6	2.6

24. Trade and other payables

	2006 £million	2005 £million
Current liabilities		
Trade creditors	**51.8**	54.8
Taxation and social security	**4.7**	5.5
Other creditors, accruals and deferred income	**30.8**	34.5
	87.3	94.8
Non-current liabilities		
Accruals and deferred income	**4.8**	4.8
Other creditors	**2.7**	2.6
	7.5	7.4

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

25. Acquisition of subsidiary

On 6 November 2006 the group announced the acquisition of Apsco Holdings, Inc and its subsidiary which now trades as TT Apsco, Inc, an electronic manufacturing services (ems) business located in the USA.

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

	Book value £million	Fair value adjustments £million	Fair value £million
Intangible assets	–	1.1	1.1
Property, plant and equipment	2.1	(0.5)	1.6
Deferred tax	0.2	0.2	0.4
Inventories	6.3	(1.2)	5.1
Trade receivables	4.2	–	4.2
Bank and cash balances	0.6	–	0.6
Trade payables	(4.2)	–	(4.2)
Total net assets	9.2	(0.4)	8.8
Goodwill			6.5
Cost of acquisition			15.3

Net outflow arising on acquisition:

	£million
Cash consideration	15.2
Cash costs	0.1
Cash and cash equivalents acquired	(0.6)
Net cash outflow	14.7

The goodwill arising on the acquisition is attributable to the profitability of the business acquired and the fact that it complements the group's existing ems businesses in China, the UK and Malaysia and establishes the group with ems facilities in all its geographic markets.

The fair value adjustments comprise the recognition of customer relationships as an intangible asset, a revaluation of the plant and the restatement of stock and stock provisions using TT electronics' accounting policies.

The acquired business contributed revenue of £5.0 million and operating profit of £0.4 million for the post acquisition period.

If the acquisition had occurred on 1 January 2006 then revenue would have been £30.5 million and operating profit would have been £3.0 million.

Deferred consideration of up to £1.0 million has not been provided for on the basis of current projections.

26. Contingent liabilities

The group has contingent liabilities amounting to £1.5 million (2005: £2.4 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.

27. Capital commitments

	2006 £million	2005 £million
Contractual commitments for the acquisition of property, plant and equipment	**8.4**	3.6

28. Operating leases

	2006 £million	2005 £million
Minimum operating lease payments charged to operating profit:		
Fixtures and equipment	**0.3**	0.6
Land and buildings	**3.3**	2.8

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

	2006 £million	2005 £million
In less than one year	**3.6**	3.2
Between one and five years	**7.9**	6.1
After five years	**6.7**	5.0

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.

29. 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 £1.7 million (2005: £1.6 million).

Defined benefit plans

The group operated nine significant defined benefit pension schemes in the United Kingdom and two overseas. During the year, six of the schemes in the United Kingdom merged into one and this and the remaining three schemes have agreed to merge with effect from 4 April 2007. The Company has committed to eliminate the IAS19 deficit as re-measured each year over the next eight years and to an additional special contribution of £5.5 million. These schemes are closed to new members. The group also operates defined benefit plans in the United States and Japan. Actuarial valuations of the plans were carried out by independent qualified actuaries between 2002 and 2005 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 2006. Pension scheme assets are stated at market value at 31 December 2006.

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

	2006 %	2005 %
Discount rate	**5.3**	4.9
Inflation rate	**2.9**	2.6
Increases to pensions in payment	**2.5-2.9**	2.5-2.6
Salary increases for 3 years	**–**	3.2
Salary increases thereafter	**3.4**	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 2006 were:

	2006 %	2005 %
Equities	**6.8**	6.9
Bonds	**4.3**	4.3
Gilts and cash	**3.8**	3.6

The mortality tables applied by the actuaries at 31 December 2006 were PA92 MC + two years.

29. Retirement benefit plans continued

The amounts recognised on the group balance sheet are:

	2006 £million	2005 £million	2004 £million
Equities	**187.8**	170.5	154.6
Bonds	**10.9**	2.9	4.0
Gilts and cash	**73.4**	72.3	44.9
Fair value of assets	**272.1**	245.7	203.5
Present value of funded obligation	**(344.7)**	(335.9)	(274.4)
Net liability recognised on the balance sheet	**(72.6)**	(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.

Amounts recognised in the Consolidated income statement are:

	2006 £million	2005 £million
Current service cost	**4.4**	4.8
Interest on obligation	**16.4**	15.3
Expected return on plan assets	**(14.5)**	(12.8)

Of the current service cost £1.5 million (2005: £1.6 million) is included in cost of sales in the income statement, £0.3 million (2005: £0.3 million) is included in distribution costs and £2.6 million (2005: £2.9 million) is included in administrative expenses. The actual return on plan assets was £23.9 million (2005: £34.4 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 £33.0 million.

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

	2006 £million	2005 £million
Opening defined benefit obligation	**335.9**	274.4
Current service cost	**4.4**	4.8
Interest on obligation	**16.4**	15.3
Plan participant contributions	**1.5**	2.0
Curtailment, see exceptional items, note 4	**(8.8)**	–
Change in actuarial estimates and assumptions	**6.2**	47.6
Exchange differences	**(0.8)**	0.3
Benefits paid	**(10.1)**	(8.5)
Closing defined benefit obligation	**344.7**	335.9

Changes in the fair value of plan assets are:

	2006 £million	2005 £million
Opening fair value of plan assets	**245.7**	203.5
Expected return on plan assets	**14.5**	12.8
Excess of actual over expected returns	**9.4**	21.6
Contributions by employer	**11.4**	14.1
Contributions by employees	**1.5**	2.0
Exchange differences	**(0.3)**	0.2
Benefits paid	**(10.1)**	(8.5)
Closing fair value of plan assets	**272.1**	245.7

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:

	2006 £million	2005 £million	2004 £million
Experience adjustments on plan liabilities	**(6.2)**	(47.6)	(19.1)
Experience adjustments on plan assets	**9.4**	21.6	8.9

The group expects to contribute approximately £18 million to defined benefit plans in 2007.

30. 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	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
TT electronics plc	**1**	4	**–**	18	**–**	2	**–**	–
Subsidiaries	**–**	1	**2**	6	**–**	–	**–**	–
	1	5	**2**	24	**–**	2	**–**	–

	Rents paid		Rents received		Amounts owed by related parties		Amounts owed to related parties	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
TT electronics plc	**160**	155	**27**	27	**3**	9	**16**	–
Subsidiaries	**3**	7	**–**	46	**–**	3	**–**	–
	163	162	**27**	73	**3**	12	**16**	–

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 loan amounted to £113,000 (2005: £113,000) of which £nil (2005: £28,000) was outstanding at the year end.

Compensation of key management personnel

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

	2006 £million	2005 £million
Short-term benefits	**2.1**	2.2
Post-employment benefits	**0.3**	0.3
Share based payments	**0.1**	0.1
	2.5	2.6

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

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 2006 which comprise the balance sheet, the accounting policies for the Company financial statements 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 page 33 on the consolidated financial statements of TT electronics plc for the year ended 31 December 2006.

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 whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, 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 parent 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 2006;
- 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; and
- the information given in the Directors' report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditors, Chartered Accountants
London, 16 March 2007

Company balance sheet
at 31 December 2006

	Note	2006 £million	2005 £million
Fixed assets			
Tangible assets	1	**2.5**	2.6
Investments	2	**139.3**	139.3
		141.8	141.9
Current assets			
Deferred tax	3	**–**	0.1
Debtors	4	**123.6**	126.5
Financial derivatives	6	**0.1**	–
Cash at bank and in hand		**–**	0.2
		123.7	126.8
Creditors: amounts falling due within one year	5	**(4.1)**	(2.8)
Net current assets		**119.6**	124.0
Total assets less current liabilities		**261.4**	265.9
Creditors: amounts falling due after more than one year	5	**(63.4)**	(61.2)
Total net assets		**198.0**	204.7
Capital and reserves			
Share capital	7	**38.7**	38.7
Profit and loss account	9	**159.3**	166.0
Equity shareholders' funds		**198.0**	204.7

Approved by the Directors on 16 March 2007 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 shareholders' funds of the Company exceed those of the group principally because the Company's financial statements are prepared under UK GAAP whereas the consolidated accounts are prepared under international financial reporting standards.

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.

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 timing differences where the transaction or event which gives the Company 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. The Company cannot identify its share of the scheme assets and liabilities. Pension costs are therefore accounted for under the rules for defined contribution schemes and represent the contributions payable in respect of the 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 binomial 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 2006	3.0	1.0	4.0
Additions	–	–	–
Disposals	(0.1)	(0.2)	(0.3)
Cost at 31 December 2006	**2.9**	**0.8**	**3.7**
Depreciation at 1 January 2006	0.6	0.8	1.4
Charge for the year	–	–	–
Disposals	–	(0.2)	(0.2)
Depreciation at 31 December 2006	**0.6**	**0.6**	**1.2**
Net book amounts			
At 31 December 2006	**2.3**	**0.2**	**2.5**
At 31 December 2005	2.4	0.2	2.6

Freehold land and buildings includes a carrying value for freehold land of £0.6 million (2005: £0.6 million).

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

	Subsidiary undertakings £million
At 31 December 2006 and 31 December 2005	**139.3**

The Company's principal operating subsidiary undertakings and the location of their principal operations are shown in note 14.

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 Thutuka Conductors and Insulators (Pty) Ltd which is 74 per cent owned and Rodco Limited, which is non-trading and is 60 per cent owned. Shareholdings are held indirectly for all principal operating subsidiary undertakings.

3. Deferred tax

	2006 £million	2005 £million
Deferred tax asset	–	0.1

4. Debtors

	2006 £million	2005 £million
Amounts falling due within one year		
Trade debtors	**0.2**	0.1
Amounts owed by subsidiary undertakings	**115.6**	122.2
Prepayments and accrued income	**0.5**	0.4
Corporation tax	**5.3**	1.8
	121.6	124.5
Amounts falling due after more than one year		
Loan to Newship Limited	**2.0**	2.0
	123.6	126.5

The loan to Newship Limited is repayable in May 2008 and bears interest at 1 per cent above base rate. The carrying amount of debtors approximates to their fair value.

5. Creditors

	2006 £million	2005 £million
Amounts falling due within one year		
Bank overdrafts (note 6)	**0.1**	–
Trade creditors	**0.4**	0.2
Amounts owed to subsidiary undertakings	**0.8**	–
Taxation and social security	**0.7**	0.6
Accruals and deferred income	**2.1**	2.0
	4.1	2.8
Amounts falling due after more than one year		
Bank loans (note 6)	**63.4**	61.2

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. 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:

	2006 £million	2005 £million
Sterling	**0.4**	–
US dollars	**63.1**	61.2
	63.5	61.2

The borrowings are repayable as follows:

	2006 £million	2005 £million
On demand or within one year	**0.1**	–
In the fourth year	**63.4**	–
In the fifth year	**–**	61.2
	63.5	61.2

The fair value of borrowings is the same as their carrying value. At 31 December 2006, the Company had committed undrawn borrowing facilities available of £6.6 million (2005: £8.8 million). There are other substantial committed and uncommitted borrowing facilities available to the group.

Financial derivatives

	2006 £million	2005 £million
Current assets		
Interest rate cap	**0.1**	–

7. Share capital

	2006 £million	2005 £million
Authorised		
226,000,000 (2005: 226,000,000) ordinary shares of 25p each	**56.5**	56.5
Issued called up and fully paid		
154,798,103 (2005: 154,798,103) ordinary shares of 25p each	**38.7**	38.7

Ordinary shares of 25p each are equity share capital.

7. Share capital continued

Share option schemes

At 31 December 2006 options were exercisable over 5,798,564 (2005: 7,076,596) 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 147.9p. Subsequent to 31 December 2006 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 1,288,230 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
22.04.2000	42,028	359.0
24.03.2001	69,769	300.0
31.03.2002	119,326	177.5
28.03.2003	207,463	91.5
18.04.2004	209,475	163.0
03.04.2005	294,044	165.0
26.03.2006	346,125	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 2,850,839 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
22.04.2000	150,181	359.0
24.03.2001	82,604	300.0
31.03.2002	82,023	177.5
15.09.2002	367,645	136.0
28.03.2003	439,715	91.5
18.04.2004	113,540	163.0
23.05.2004	336,083	166.0
03.04.2005	308,376	165.0
26.03.2006	970,672	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. The options outstanding at the date of this report are over 330,909 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
25.05.2007	186,255	145.0
07.04.2008	144,654	205.5

7. Share capital continued

2004 Unapproved Plan

This scheme for senior executives was approved at the Annual General Meeting on 19 May 2004. The options outstanding at the date of this report are over 1,328,586 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
25.05.2007	747,980	145.0
07.04.2008	580,606	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.

Long Term Incentive Plan 2005

No grants were made in 2006. On 16 January 2007 grants were made which may result in the issue of up to 544,449 shares in 2010.

8. Share based payments

Details of the share options issued are given in note 7. The basis of calculation of the share based payments, which all relate to share options issued are given in the consolidated accounts, note 14.

9. Reserves

	Profit and loss account £million
At 1 January 2006	166.0
Final dividend 2005	(9.9)
Interim dividend 2006	(5.7)
Share based payment	0.3
Profit for the year	8.6
At 31 December 2006	**159.3**

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.

10. 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.

11. Obligations under operating leases

The operating lease payments due within one year to which the Company was committed at 31 December 2006 were:

	Land and buildings £million	Other £million	2006 Total £million	Land and buildings £million	Other £million	2005 Total £million
On leases expiring:						
Within one year	**–**	**0.1**	**0.1**	–	0.1	0.1
Between two and five years	**0.6**	**–**	**0.6**	0.6	0.1	0.7
Over five years	**0.4**	**–**	**0.4**	0.4	–	0.4
	1.0	**0.1**	**1.1**	1.0	0.2	1.2

12. 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 2006 were £4.1 million (2005: £1.5 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 2006. The market value of the scheme's assets at the year end was £93.8 million and the present value of the scheme's liabilities was £119.4 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.

A further merger of UK pension schemes will take effect on 4 April 2007. Further details and an analysis of the group's pension funding are given in note 29 to the consolidated financial statements.

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 2006 were £33,000 (2005: £13,000).

13. Employees

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

	2006 number	2005 number
By function		
Administration	**48**	52

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

	2006 £million	2005 £million
Wages and salaries	**4.0**	3.9
Employer's social security charges	**0.4**	0.5
Employer's pension costs	**4.1**	1.5
	8.5	5.9

Remuneration in respect of the Directors was as follows:

	2006 £million	2005 £million
Emoluments	**1.5**	1.2

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

14. Principal operating subsidiaries

The principal operating subsidiaries are:

Electronic sector

Sensors and electronic systems
AB Automotive Electronics Limited
AB Automotive, Inc, USA
AB Electronic Limited
AB Elektronik GmbH, Germany
AB Elektronik Sachsen GmbH, Germany
Optek Technology, USA, Mexico

Electronic components
AB Mikroelektronik GmbH, Austria
BI Technologies, USA, UK, Mexico, Malaysia
International Resistive Company, Inc, USA
MMG India Private Limited, India
Welwyn Components Limited

Electronic manufacturing services
TT electronic manufacturing services Limited
TT electronic integrated systems Limited
TT electronic integrated systems (Suzhou) Co Ltd, China
TT Apsco, Inc, USA
BI Technologies, Malaysia

Electrical sector

Power systems
Dale Power Solutions Limited
Ottomotores SA de CV, Mexico

Power transmission
AB Connectors Limited
AEI Cables Limited
AEI Compounds Limited
Wire Systems Technology (Pty) Limited, South Africa
W T Henley Limited

Companies are located and incorporated in the UK except where indicated.

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 16 May 2007 at 12 noon for the following purposes:

1. To receive the financial statements for 2006, 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 2006.
3. To declare a dividend of 6.36p per ordinary share.
4. To re-elect R W Weaver as a Director.
5. To re-elect D S Crowther as a Director.
6. To re-elect D E A Crowe as a Director.
7. To re-elect T H Reed as a Director.
8. To reappoint Grant Thornton UK LLP as Auditors.
9. 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 10 will be proposed as an ordinary resolution and resolutions 11 and 12 will be proposed as special resolutions.

General Allotment Authority

10. 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 2008 save where the Directors exercise such authority pursuant to an offer or agreement made prior to that date.

Disapplication of Pre-emption Rights

11. 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 10 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 2008 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

12. 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 shall not be more than the higher of:
a) 105% of the average of the market values of such ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date on which the purchase is made; and
b) that stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC 2273/2003);

iv) unless previously revoked or varied, the authority hereby conferred shall expire on 30 June 2008; 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

W J Sharp
Secretary
12 April 2007

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 14 May 2007 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 14 May 2007 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 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	Note		2006	2005	2004 IFRS	2003	2002 UK GAAP
Revenue	1	(£million)	**600.3**	565.3	573.1	533.9	520.3
Profit before taxation	1, 2	(£million)	**30.5**	24.7	30.0	3.2	7.9
Adjusted earnings per ordinary share	1, 2	(p)	**14.1**	10.7	13.0	(0.1)	3.6
Adjusted earnings	1, 2	(£million)	**21.8**	16.6	20.1	16.2	15.6
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)	**157.0**	151.7	166.7	196.1	205.7

Notes
1 From continuing operations.
2 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 16 May 2007 at 12 noon at the Ironmongers' Hall, Shaftesbury Place, Barbican, London EC2Y 8AA.

Results
Announcement of 2007 half year results – mid September 2007.

Preliminary announcement of 2007 results – late March 2008.

Annual report 2007 – to be posted mid April 2008.

Dividends
The final dividend in respect of the year to 31 December 2006 will be paid on 25 May 2007 to those shareholders on the register on 18 May 2007. Shares ex dividend on 16 May 2007.

The interim dividend in respect of the year to 31 December 2007 will be paid in late October 2007.

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.

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.

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