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

Annual Report 2007

TT electronics plc

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

Our vision is to achieve growth by

- investing in leading edge technologies
- focussing on new product development
- expanding our global customer base
- moving up the value chain and enhancing margins
- growing our competitive advantage

Contents

Highlights 2007

Operational highlights

- Growth in operating profit on continuing activities to £37.7 million (2006: £36.5 million before exceptional gain)
- Successful exit from commodity cables operation
- Employees in low cost manufacturing operations increase to 42 per cent of workforce (2006: 39 per cent)

Financial summary

	2007 £million	2006 £million
Revenue	**544.9**	539.4
Operating profit(1)	**37.7**	36.5
Profit before taxation(1)	**33.3**	31.2
Basic earnings per share from continuing activities	**15.5p**	18.1p
Basic earnings per share from continuing activities(1)	**15.5p**	14.1p
Ordinary dividends per share	**10.05p**	10.05p

Note (1) The above are reported before the exceptional gain in 2006.

There were no exceptional items in 2007.

Chairman's statement

John W Newman
Executive Chairman

TT electronics delivered operating profits of £37.7 million compared with £36.5 million before exceptional profit in the previous year, a 3 per cent improvement. Turnover of continuing operations was £544.9 million compared to £539.4 million in the previous year. Finance costs (net) were £4.4 million (2006: £5.3 million). These comprise £4.5 million of bank and finance interest (2006: £3.5 million) and £0.1 million income relating to pension fund accounting (2006: £1.8 million cost). Profit before tax from continuing operations was £33.3 million compared with £31.2 million before exceptional profit in 2006, an increase of 7 per cent. Taxation charge of £9.3 million (2006: £12.0 million) was an effective rate of 28 per cent (2006: 30 per cent).

Basic earnings per share from continuing operations before exceptional items were 15.5p compared with 14.1p in 2006, an increase of 10 per cent.

The sale of our commodity cable business of AEI Cables Limited was completed on 3 September 2007 as I reported in my half year statement. The cash proceeds of sale, following settlement of the completion accounts, were £10.8 million plus a deferred consideration of £0.9 million. This resulted in a final discount including costs of £12.3 million against the carrying value of assets sold. We have retained ownership of the freehold land at the AEI Cables site, which is leased at a market rate, and we expect to produce a profit on the sale of this land in due course.

As a result of the sale of the AEI Cables business, the remaining Electrical sector businesses have been combined into the newly designated 'Secure power and industrial sector'. The analysis of the other sectors is unchanged.

During the year the group incurred costs of the transfer of manufacturing from the USA and Europe to low labour cost areas, in particular Malaysia and China. Further costs will be incurred in 2008 when we transfer the next tranches of the manufacture of electronic systems, sensors and components to our facilities in China, India and Mexico. These moves are essential to remain cost competitive and improve future operating margins.

At 31 December 2007, the group's net indebtedness was £75.0 million compared with £71.0 million in the previous year resulting in gearing of 41 per cent (2006: 45 per cent). The inflow of cash from the sale of AEI Cables has been offset by further additional payments into the group's pension scheme amounting to £15.7 million. The group is utilising 46 per cent of its total borrowing facilities and 43 per cent of these facilities are in the form of a medium term facility with over three years before renewal.

I am pleased to report that, following the significant additional payments into the pension scheme, a higher discount rate and improved returns from the assets held, the deficit on the pension funds has been reduced to £17.4 million compared with £72.6 million at the previous year end. The pension schemes are now 94 per cent funded on an IAS 19 basis (2006: 79 per cent).

The following appointment to the Board has been made since my half year statement: in November 2007, Sean Watson, a senior partner in CMS Cameron McKenna LLP was invited to join the Board as an independent non-executive Director. Sean Watson's knowledge of corporate law will be of great benefit to the Board, especially in the light of the latest Companies Act. On 1 August 2008, Shatish Dasani will join the Board as Finance Director replacing Roderick Weaver who will be retiring on the same day. Roderick has been with the group for 23 years, 12 of which were as Finance Director. All those who know him are aware of the great contribution he has made.

I would like to give my thanks to all the employees of TT electronics for their efforts and contribution to the group's performance during the past year.

The Board recommends a final dividend of 6.36p per share. This is the same final dividend as in the previous year, bringing the total dividend for the year to 10.05p. The final dividend will be paid on 23 May 2008 to shareholders on the register on 16 May 2008.

Whilst current trading is expected to remain overall similar to 2007, the further reorganisation of operations, difficulties in the credit markets and concerns as to the effect on the global economy causes the Board to take a cautious view for the current year.

John W Newman
Executive Chairman

14 March 2008

Summary of sectors

Sensors and electronic systems

Our highly regarded sensors are sold primarily into the German automotive market where technology is key.

Drivers of growth are drive by wire technology in vehicles, legislation on vehicle emissions, increased production in emerging economies and a steady increase in the number of electronic systems fitted to vehicles.

Electronic manufacturing services

The establishment of a global manufacturing footprint has been completed following the integration of our US based operation acquired late in 2006.

We specialise in providing manufacturing solutions to our customers operating in the defence, aerospace, premium industrial and telecom markets.

Our customers are demanding increasingly complex manufacturing solutions, often for integrated assemblies, in both established and emerging markets.

Electronic components

Our specialist resistive components and microcircuits are marketed throughout the world utilising our global sales channels.

Key drivers are the increased use of complex control electronics in defence, aerospace and automotive applications where high reliability is vital, the need for electronics to operate in harsh environments and the increased circuit speeds required by modern electronic solutions.

Secure power and industrial

Following the disposal of the business of AEI Cables Limited this sector combines the original power systems and power transmission sectors.

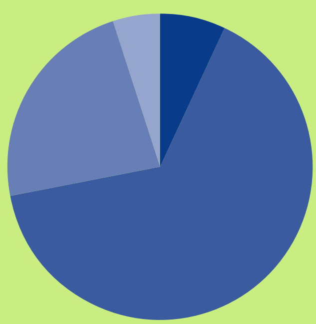
Our secure power operations include standby generation and uninterruptible power systems manufacture and service. Demand for power continues to grow in world markets.

The industrial group includes the global interconnection systems business, serving the growing defence and traction markets, together with manufacturing operations in electrical fusegear, compounding, and fine wire.

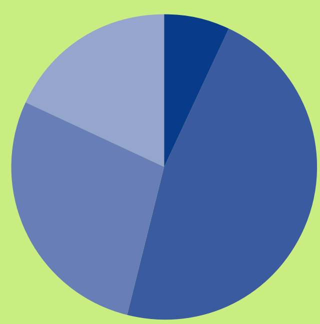
Highlights and strategy

	Sensors and electronic systems	Electronic components
Highlights	• Technology led • Competitive market position within Europe • Growth opportunities in the Rest of the World	• Key process technologies • Global business • Non-commodity, high margin
Strategy	To become a market leader in automotive position, speed, pressure and temperature sensors. • Autopad® is a technology leader in automotive position sensing • Optoelectronic products is a growth product line • Target growth in emerging markets • Further transfer of manufacturing to low cost operations • Selective acquisition strategy in automotive and industrial markets with focus on technology	To enhance competitive position as a specialist global component manufacturer targeting growth from new technologies in global markets. • Increased demand for thin film components with the need for faster circuit speed • Anotherm Plus® is a success in the automotive solid state lighting market • Target growth in Far Eastern markets • Selective acquisition strategy in related component fields

Revenue by destination

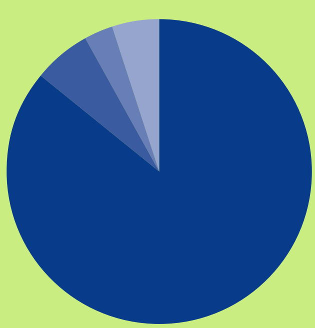


United Kingdom **7%**
Rest of Europe **65%**
North America (including Mexico) **23%**
Rest of the World **5%**

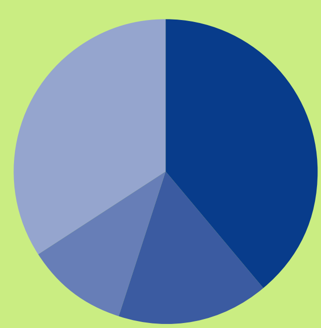


United Kingdom **7%**
Rest of Europe **47%**
North America (including Mexico) **28%**
Rest of the World **18%**

Revenue by market



Automotive **86%**
Telecom and computer **6%**
Defence and aerospace **3%**
Industrial **5%**



Automotive **39%**
Telecom and computer **16%**
Defence and aerospace **11%**
Industrial **34%**

Highlights

Electronic manufacturing services

- Focus on building complete systems
- Global business

Secure power and industrial

- Growth in emerging markets
- Low cost manufacturing focus
- High margin

Strategy

Electronic manufacturing services

To capitalise on the establishment of a global footprint and to move up the value chain into higher level assemblies and integrated systems.

- Expand global capability to build integrated assemblies
- Provide enhanced design, manufacturing and logistics services
- Target growth in high margin defence, aerospace, medical and specialised industrial markets
- Low cost operations support transfers from the West and give access to local growth markets

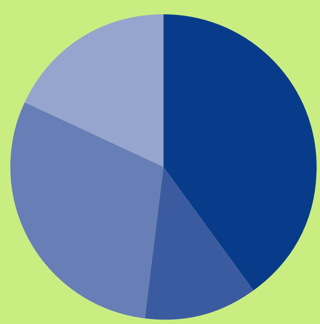
Secure power and industrial

To drive growth in expanding markets utilising low cost manufacturing capability and relationships with key customers.

- Target growth from high margin defence, aerospace and traction markets
- Further expansion of low cost manufacturing base to meet growing demand
- Focus on export markets
- Expansion of product range to support increased revenue
- Selective acquisition strategy in related fields

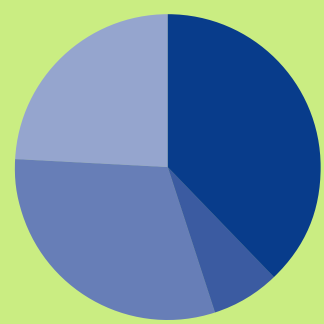
Revenue by destination

Electronic manufacturing services



- United Kingdom **40%**
- Rest of Europe **12%**
- North America (including Mexico) **30%**
- Rest of the World **18%**

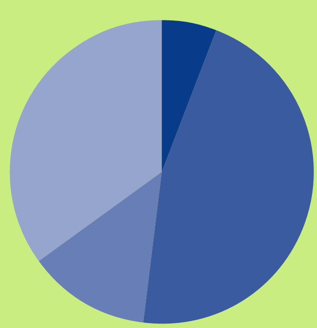
Secure power and industrial



- United Kingdom **38%**
- Rest of Europe **7%**
- North America (including Mexico) **31%**
- Rest of the World **24%**

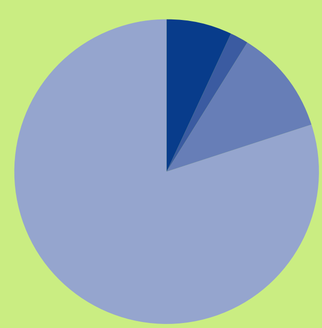
Revenue by market

Electronic manufacturing services



- Automotive **6%**
- Telecom and computer **46%**
- Defence and aerospace **13%**
- Industrial **35%**

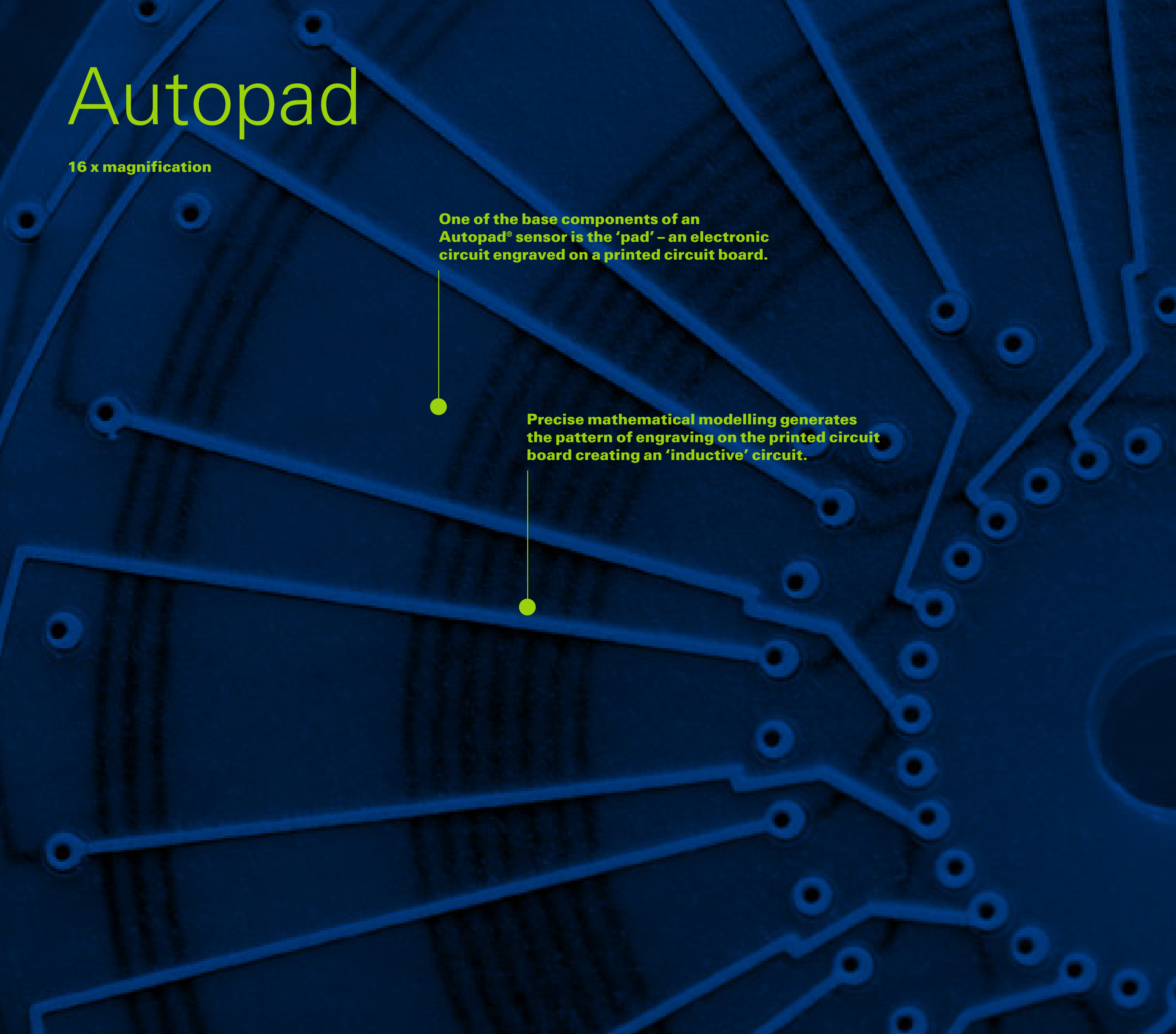
Secure power and industrial



- Automotive **7%**
- Telecom and computer **2%**
- Defence and aerospace **11%**
- Industrial **80%**

Autopad

16 x magnification



TT electronics' patented Autopad® technology provides highly accurate position sensing for the growing automotive electronics sector.

Autopad® technology has been developed over the past three years using a combination of the skills at our Cambridge research facility and the engineers based in our German manufacturing operation. Complex modelling of the integrated inductive circuit, together with the design of the mixed signal application specific integrated circuit, is the core of this highly cost effective sensing technology.

Approval to manufacture has now been received and the first products are due for launch in the German automotive market during 2008.

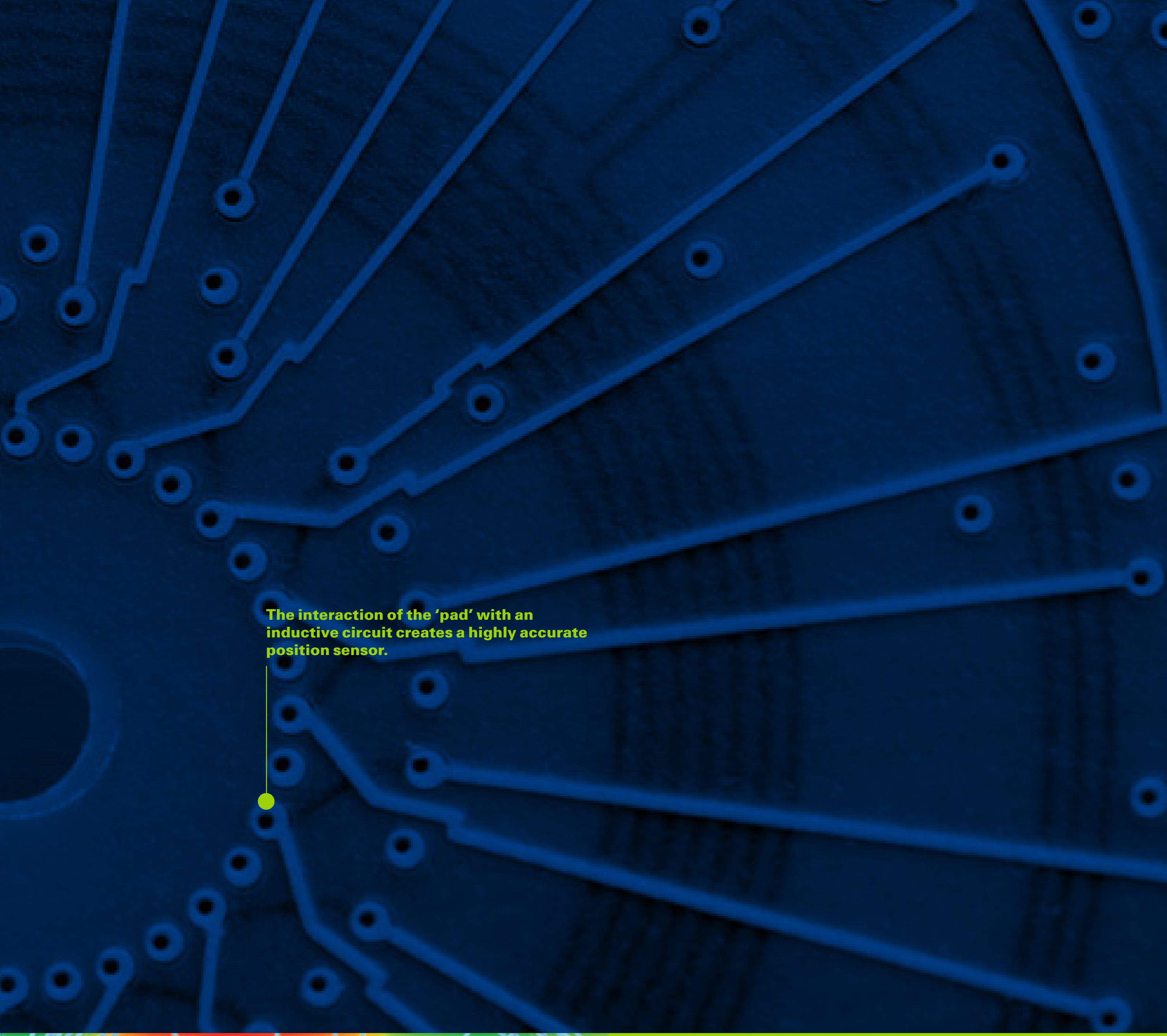
Sensing Applications
- Accelerator pedal
- Chassis height
- Steering torque / position
- Throttle position
- Brake wear

Markets
- Automotive
- Truck
- Off road vehicles

Characteristics
- Non-contact inductive position sensing
- Platform technology
- Competitive price / performance
- Straightforward manufacturing process
- Environmentally robust
- Well established technical principles
- Patented

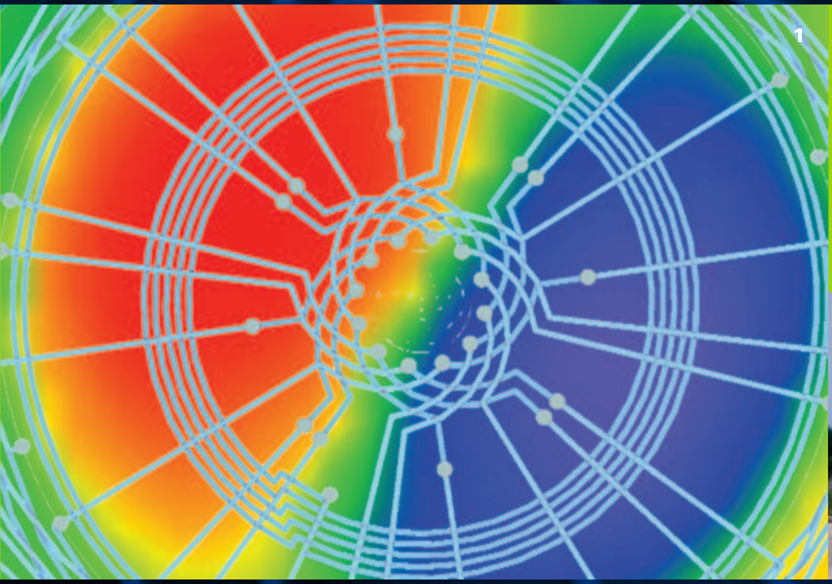
Components
- ASIC
- Pad
- Puck
- Housing

Development Customers
- BMW
- Daimler
- VW
- Haldex
- Automotive Lighting
- ZF



The interaction of the 'pad' with an inductive circuit creates a highly accurate position sensor.

1



2

3

1
This image shows the magnetic field generated around the sensor printed circuit board of a rotary Autopad® sensor.

2
A typical application for Autopad®, this accelerator pedal designed for a major German vehicle manufacturer communicates electronically with the engine control unit providing true 'drive by wire' capability.

3
The German vehicle manufacturers are responsible for creating a range of vehicles utilising 'best in class' electronics technology. Modern safety systems utilise a variety of sensor outputs to ensure passenger safety at all times.

Thin film resistors

4.6 x magnification

TT electronics' thin film tantalum nitride technology is used to manufacture specialist resistors and resistor networks. High performance applications are in the defence, aerospace, medical, industrial, high speed telecom and computer markets. These applications increasingly require high reliability components capable of withstanding harsh environments which can support the high circuit speeds demanded by complex modern electronic equipment.

Recent investment by TT electronics in our Texas based manufacturing operation has increased capacity to enable us to serve the growing global market.

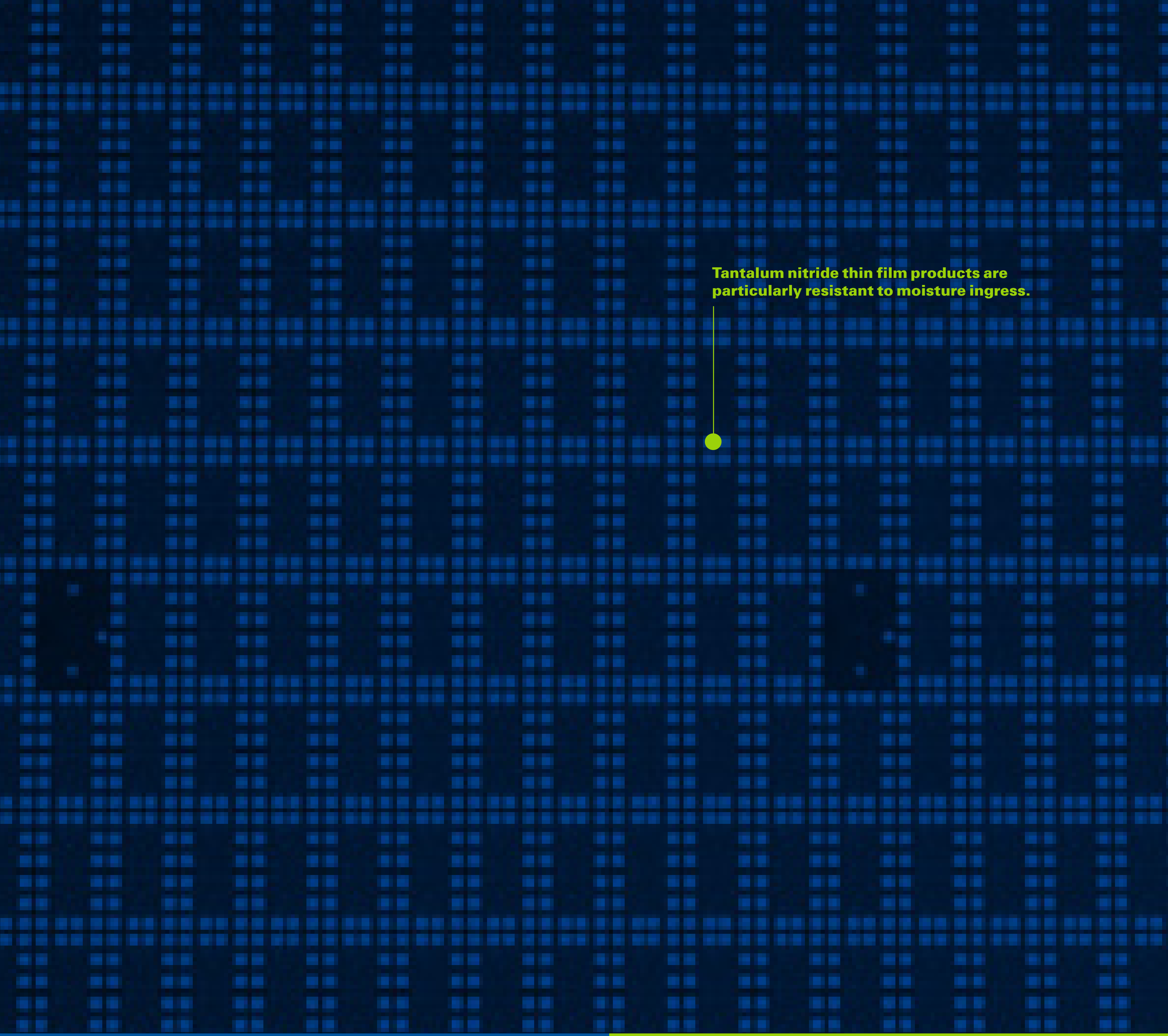
Applications
- Satellites
- Aerospace
- High speed computers / servers
- Test equipment and instrumentation
- High speed telecom / video
- Semiconductor manufacturing equipment

Markets
- Telecom and computer
- Defence and aerospace
- Premium industrial
- Medical

Characteristics
- High frequency
- Precision tolerance
- Custom designed
- Package size variety
- Fast circuit speed
- Complex manufacturing process

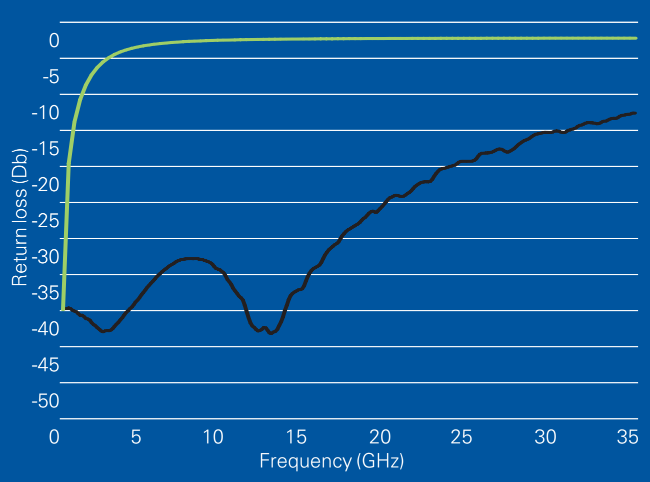
Components
- Ceramic / silicon substrate
- Conductive / insulating layers
- Lead frame
- Package

Customers
- Bose
- Delphi
- IBM
- Cisco
- BAe Systems
- Rockwell
- TTI
- Arrow
- Wabco
- Benchmark



Tantalum nitride thin film products are particularly resistant to moisture ingress.

1



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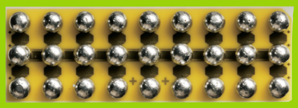

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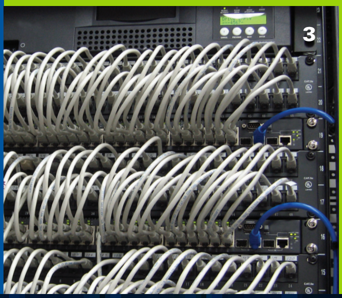


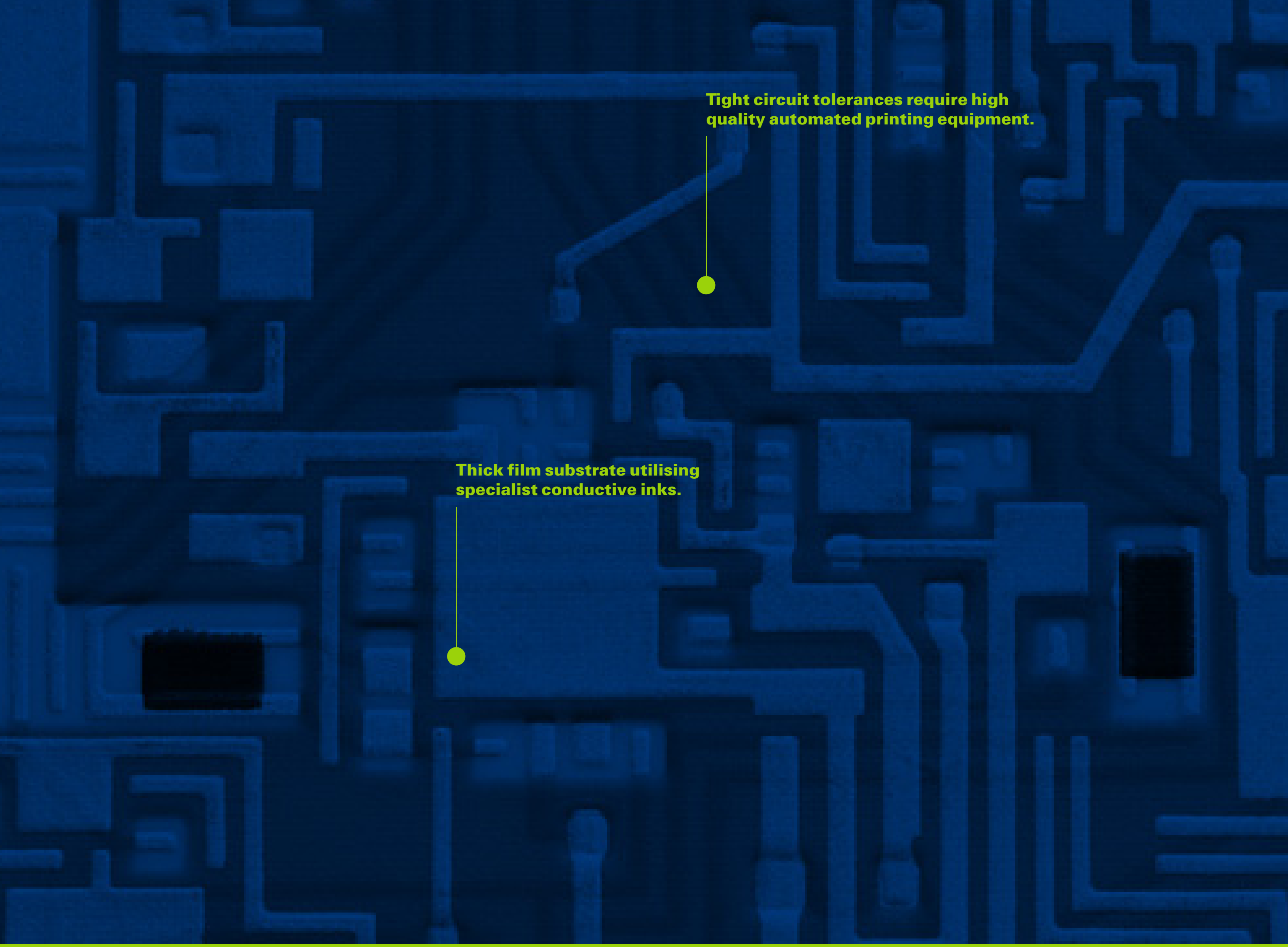
1
The black line details the return loss of a typical resistor and the green curve shows the outstanding performance of a thin film ball grid array (BGA) component.

2
The high frequency performance of the BGA package manufactured at our Texas based factory is in high demand. TT electronics have invested in the past year to increase capacity to support growing global demand.

3
High speed routers are a typical telecom application using thin film resistors in BGAs giving maximum connection efficiency by placing the terminations beneath the device.

Microcircuits

12.4 x magnification



TT electronics’ microcircuit technologies are used in the military, aerospace and automotive industries. These applications require complex electronic circuits which guarantee high reliability, extreme environmental robustness and compact size. Each product is custom designed to a specific customer’s needs and will often exhibit tight circuit tolerances, the ability to operate at high frequencies and be capable of management of high power functions.

TT electronics’ manufacturing operations have recently made significant investment in infrastructure and equipment to ensure we continue to provide a quality service to our customers across the world.

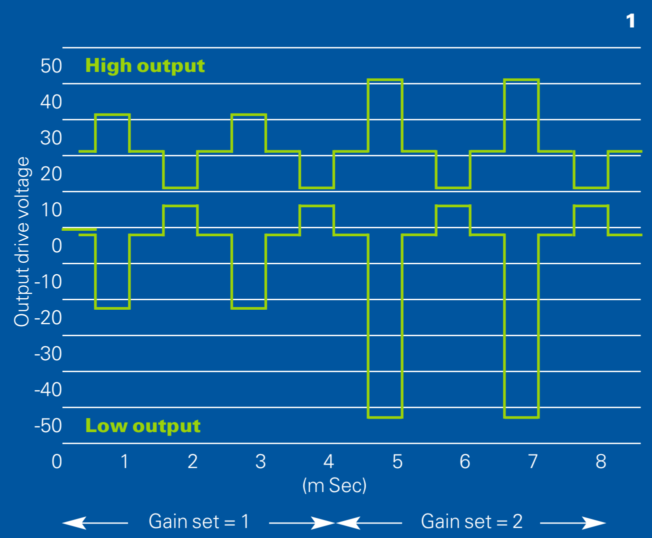
Applications
- Headlamp levelling
- Water pump control
- Aircraft engine management systems
- Industrial motor drives

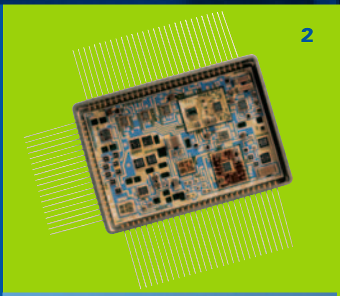
Markets
- Telecom
- Defence and aerospace
- Premium industrial
- Medical
- Automotive

Characteristics
- Process technology
- Custom designed
- Operational in high temperatures
- Complex manufacturing process
- Space efficient

Components
- Conductive ink
- Ceramic substrate
- Bonded die
- Packaging

Customers
- BMW
- VW
- Daimler
- Porsche
- Pierburg
- Goodrich
- Honeywell
- Rolls Royce
- Raytheon
- Teledyne
- EADS
- Electronica
- Indra





1
This graph shows the pulse output signal of the 'Phase Shifter' microcircuit. The output drive can be adjusted to control radar range.

2
Built to a military standard this microcircuit is assembled at our California facility utilising specialist automated die placement and wire bonding equipment.

3
A mobile radar system uses hundreds of transmit / receive modules to comprise a complete scanning array, providing faster and more accurate image depiction than mechanical scanning radars. Each of these modules uses one of TT electronics' microcircuits.

Business review

Neil A Rodgers
Chief Executive

Roderick W Weaver
Finance Director

Growth in operating profit on continuing activities to £37.7 million (2006: £36.5 million before exceptional item).

Successful exit from the low margin commodity cables operation completed in September with the sale of the business of AEI Cables Limited.

Purchase of new patents for steering and fuel level sensing technologies to supplement future growth.

Employees in low cost manufacturing operations increase to 42 per cent of total workforce (2006: 39 per cent).

TT electronics is a technology based group with a leading position in sensors, electronic components and electronic manufacturing services in global markets.

The group's strategy is to continue to invest in leading edge technologies and to focus on product development for an expanding global customer base. This will enable TT electronics to move up the value chain by producing more specialist, high level assemblies thereby growing competitive advantage and operating margins. The further transfer of manufacturing to lower cost economies, where appropriate, and other cost reduction plans will minimise the effect of price competition. The group's comprehensive global manufacturing capability is a strong platform to service both specialist western based markets and emerging markets.

The disposal of the business of AEI Cables Limited resulted in the power transmission product sector largely being discontinued. The remaining power transmission businesses are now included in the power systems product grouping which has been renamed 'Secure power and industrial'. There are no other changes to the analysis of product grouping.

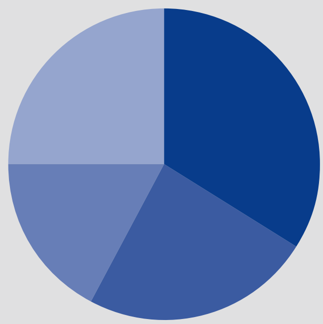
This Business review is to be read as part of the Directors' report. The summary of key financial performance indicators and a review of the group's overall performance are detailed as follows:

Overview of group performance

	2007 £million	2006 £million
Revenue		
Continuing operations		
sensors and electronic systems	**182.3**	184.8
electronic components	**131.2**	139.9
electronic manufacturing services	**92.2**	72.1
secure power and industrial	**139.2**	142.6
	544.9	539.4
Operating profit(1)		
Continuing operations		
sensors and electronic systems	**10.0**	11.6
electronic components	**10.0**	11.4
electronic manufacturing services	**4.1**	1.3
secure power and industrial	**13.6**	12.2
	37.7	36.5
Cash generated from operations	**42.9**	32.1
Capital employed	**277.0**	255.2
Return on capital employed	**14%**	14%
Number of employees	**7,546**	7,599
Employees in low cost economies	**42%**	39%

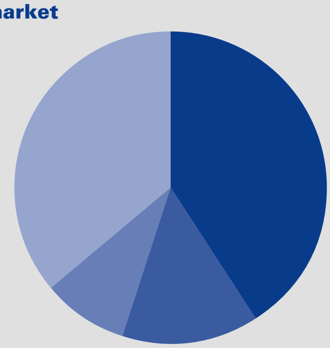
(1) Throughout this review operating profit for 2006 is stated before the exceptional gain. There were no exceptional items in 2007.

Revenue by product



- Sensors and electronic systems **34%** (34%)
- Electronic components **24%** (26%)
- Electronic manufacturing services **17%** (14%)
- Secure power and industrial **25%** (26%)

Revenue by market



- Automotive **41%** (44%)
- Telecom and computer **14%** (15%)
- Defence and aerospace **9%** (8%)
- Industrial **36%** (33%)

TT electronics has generated an operating profit on continuing activities of £37.7 million, which represents a growth of 3 per cent over the prior year's profit of £36.5 million.

This growth has been achieved in market conditions which rapidly became more difficult during the final months of 2007. The global credit crisis, the weakness of the US dollar and a general softness within the USA markets combined to make the final months of 2007 challenging. The effect of currency movements on the translation of revenue and operating profit was a reduction of £19.1 million and £1.4 million respectively. This was predominantly as a result of the exchange rate of the US dollar against sterling weakening from an average rate of 1.84 in 2006 to 2.00 for 2007.

The integration of TT Apsco Inc, which was acquired in November 2006, into the electronic manufacturing services sector has now been completed.

The legal formalities for the establishment of Padmini TT, the new joint venture in India serving the automotive market, have been completed and contracts to supply automotive sensor products are now being won.

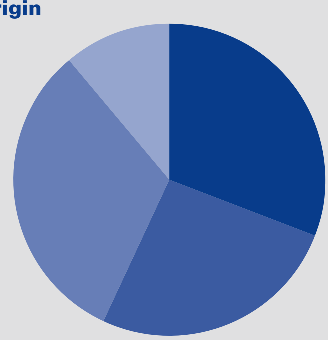
The completion of the sale of the business of AEI Cables Limited was a major step forward in the withdrawal from non-core commodity products. This is in line with the strategy to concentrate on more specialist products with higher margins.

The demand for the group's products in world markets has varied dependent upon the sector and geographical market serviced.

The European and Far East markets have remained strong but the well publicised difficulties of the North American automotive market have had an adverse effect on profit. The move of manufacturing to lower cost economies continues to benefit the group and growth in domestic sales in emerging markets is being targeted. The group now has 42 per cent of its employees in low cost economies and the China based operations continue to grow with the establishment of factories for the manufacture of automotive sensors and electronic systems, resistors, electrical fusegear and interconnection systems. Since 2005 the factory space occupied in China has expanded from 2,500 sq. metres to over 15,000 sq. metres.

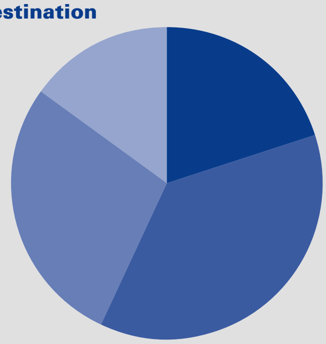
Work on acquisitions has continued throughout the year but no suitable prospects at an acceptable price have been identified. TT electronics remains cautious of opportunities requiring prices based on high multiples of profits and it is pleasing that the global credit crisis has reduced price expectations of business sellers and may provide trade purchasers such as ourselves with greater opportunity. Consequently activity on the search for suitable acquisitions has been increased.

Revenue by origin



- United Kingdom **31%** (32%)
- Rest of Europe **26%** (26%)
- North America **32%** (31%)
- Rest of the World **11%** (11%)

Revenue by destination



- United Kingdom **20%** (22%)
- Rest of Europe **37%** (37%)
- North America **28%** (27%)
- Rest of the World **15%** (14%)

We remain committed to maintaining the pace of new product development, particularly in our sensor and electronic component sectors. TT electronics has many exciting new technologies and innovative new products, and it is our intention to drive for growth from these and to supplement them with suitable acquisitions to accelerate organic growth of the group. During 2007 the group purchased the patents to expand the use of Autopad® for fuel level sensing and Digital Angular Position Sensing for steering applications.

Sensors and electronic systems

	2007 £million	2006 £million
Revenue	**182.3**	184.8
Operating profit	**10.0**	11.6
Capital employed	**105.1**	87.4
Return on capital employed	**10%**	13%
Number of employees	**2,429**	2,601

TT electronics' leading edge automotive sensor technologies include products such as electronic accelerator pedals, which are single sourced on a range of German premium vehicles, as well as engine and wheel speed, temperature and pressure sensors and chassis height sensors used for load levelling and electronic stability control which is increasingly popular in modern vehicles. An average vehicle may incorporate around fifty electronic sensors and the TT electronics' product range covers up to 20 per cent of these applications. The optoelectronic sensor product range mainly addresses non-automotive markets for applications within office, industrial and banking equipment, a market which is growing in line with increased automation across the world.

The electronic systems manufactured are largely destined for the North American automotive industry. Increasing competition from the Far East, combined with lower volumes and a weak US dollar, have combined to make this a low margin activity. We initiated plans during 2007 to cease manufacture in our North American facility and by the end of 2008 this factory will be used for the sale and service of electronic systems and the manufacture of interconnection systems.

Development of the Autopad® inductive sensor technology suffered with initial delays to the completion of the Application Specific Integrated Circuit ('ASIC') necessary for it to be effective in volume automotive applications. An ASIC development programme can take up to three years to complete. This has caused a major customer for this technology to defer the start of production from autumn 2007 to autumn 2008. However, this development is now complete and customer approval for production has been given. Manufacture of accelerator pedals will commence in quarter two 2008 for production launch on vehicles in quarter four 2008. Autopad® is an innovative technology with excellent growth potential in a range of automotive applications.

The optoelectronic non-automotive sensor range continues to be developed and the product range of visible LEDs has been relaunched. There are many exciting new products for development and launch during 2008, such as ultra violet sensors, optocouplers and encoders. Growth in the Far East has levelled off following our very successful year in 2006. However, we remain confident in the future success of the product line in global markets.

There have been significant investments made in this sector including the extension of one of the German factories to provide further capacity for new products and investment in plant for the manufacture of the Autopad® range of sensors planned for launch in 2008.

The revenue in this sector has declined in 2007 due to the completion of a number of automotive programmes. However the Autopad® technology, the combined growth of automotive temperature and pressure products and the future development of the optoelectronic product range provide an excellent foundation for growth in 2009 and beyond.

Electronic components

	2007 £million	2006 £million
Revenue	**131.2**	139.9
Operating profit	**10.0**	11.4
Capital employed	**99.4**	95.9
Return on capital employed	**10%**	12%
Number of employees	**2,707**	2,598

TT electronics specialises in the manufacture of a wide range of resistive products for the defence, aerospace, industrial and automotive markets. The group's global sales channels provide access to both western based markets and growing emerging markets in China and India. The group's product range targets specialist, high margin markets; products are custom designed for our customers' applications by a global network of experienced application sales engineers who support the customers' design centres.

Within this sector are microcircuit operations which specialise in manufacturing custom designed microcircuits for a range of applications in the defence, aerospace, automotive and premium industrial markets. These products are complex to manufacture and are designed to provide extreme reliability, often operating in harsh environments. Under development for the German automotive industry is an exciting new range of solid state lighting modules for the control of vehicle daylight running lamps and direction indicator units. Production is planned to start during 2008.

In February 2008 the group's UK resistor manufacturing operation announced a reduction in its workforce in line with the transfer of manufacturing of low margin products to lower cost economies. The UK manufacturing operations and the European sales offices have been combined into a single reporting entity in order to facilitate greater market penetration.

There have been two significant investments in the component sector during 2007. Both of these expansions have been completed on time and as planned. The expansion of the Austrian microcircuit factory has been completed; this is needed for the introduction of the new business won recently. Additional production equipment has been installed in our Texas based manufacturing facility and this investment has enabled us to reduce lead times significantly and thereby meet customer delivery expectations. This factory manufactures thin film products and was previously operating on a seven day, twenty-four hour basis. The investment is now complete and we anticipate increased business will result.

The overall market for component products softened during the latter months of 2007; this was particularly pronounced in North America. Revenue from older leaded resistive component products declined as customers substituted these for surface mount component technologies. The marketplace for the products continues to migrate to lower cost economies, particularly the Far East, and we track this transfer to ensure that TT electronics' components remain specified in the customer's product. However, inevitably some business has been lost to local suppliers. To counter this, our sales representation in China and India has been increased and where a financial justification can be made the group will transfer the manufacture of resistive products to those territories.

1
TT electronics' Dresden based factory has recently been extended to meet growth expectations in temperature and pressure sensors.

2
The complex semi-automatic production line manufacturing our innovative combined temperature and pressure sensors for BMW vehicles.

3
Investment in new plant for the manufacture of a new non-contact steering torque sensor sold to the Korean vehicle market.

4
To cope with increased demand for our thin film passive components, significant investment has been made.

The outlook for specialist resistive products and microcircuit operations is still healthy; although competition for the older product ranges remains intense.

Electronic manufacturing services

	2007 £million	2006 £million
Revenue	**92.2**	72.1
Operating profit	**4.1**	1.3
Capital employed	**32.4**	31.4
Return on capital employed	**13%**	4%
Number of employees	**1,070**	888

TT electronics global electronic manufacturing services ('ems') operations are based in the UK and USA with low cost manufacturing operations in China and Malaysia. These specialise in providing high quality manufacturing support for customers operating in the defence, aerospace, telecom and premium industrial markets. The group's capability extends to providing design for manufacturing and logistics support, and the group's strategy is to be an integral part of the customer's manufacturing solutions.

The integration of TT Apsco Inc into the TT electronics ems sector is complete. New management is in place, the operation is now focussed on implementing modern manufacturing methods and controls, standard costing has been installed and is giving clear visibility of customer margins, and the sales force expanded. These improvements, particularly to the sales force, are now beginning to bear fruit and the operation has started to win new business for introduction during 2008.

The cost issues reported in the first half year results in connection with the transfer of production from the UK based manufacturing site to Malaysia have been resolved and new management has been put in place.

The ems operations' strategy is to capitalise on the group's global footprint, with the western manufacturing bases supporting lower volume, more specialist production and the low cost manufacturing capabilities targeted to those contracts with higher volumes.

Revenue in this sector has increased by 28 per cent, primarily due to the acquisition of TT Apsco Inc in Cleveland, Ohio in November 2006. New contracts continue to be won in all territories and future growth in revenue and profitability is promising.

Secure power and industrial

	2007 £million	2006 £million
Revenue	**139.2**	142.6
Operating profit	**13.6**	12.2
Capital employed	**40.1**	40.5
Return on capital employed	**34%**	30%
Number of employees	**1,340**	1,512

TT electronics operates in the secure power market concentrating on the supply of standby generators, uninterruptible power systems, electrical control panel upgrades and service. The Mexican factory has established a strong market position in its domestic market and has been very successful in expanding its global sales operations to the export markets in South America and China.

The remaining businesses in this sector are involved in the manufacture of interconnection systems, electrical fusegear, specialist compounds and fine wire.

The standby generator manufacturing operation based in Mexico City has delivered another year of robust performance. The factory site, purchased in late 2005, has received substantial investment and the building has been extended making the site more suitable for high volume equipment manufacture. In the UK, two secure power operations have been combined into a single business on a single site under new management. The combined operations have beaten initial targets and have a promising future.

The interconnection systems operation has expanded from its original business of connector manufacture to become a higher value added supplier of a range of interconnection systems and complex electrical equipment to the defence and traction markets. Manufacturing has been expanded into the USA and China and further growth opportunities in the USA and UK markets identified.

Within the remaining operations, common themes are the outsourcing of manufacturing to third parties, the expansion of revenues in export markets and the continued development of new product ranges to maximise future revenue.

In the industrial markets serviced, growth from new products or markets is more difficult to achieve. However, the businesses in this sector anticipate continued good performance.

The sector's performance has steadily improved and operating profit is 10 per cent of sales with an excellent return on capital employed.

Discontinued operation

The sale of the business of AEI Cables Limited was completed on 3 September 2007. This business manufactured medium power electrical cables, typically suitable for domestic and industrial buildings. The marketplace was dominated by larger manufacturing companies with an international coverage and, although the operation was well run, the margins were not sufficient to compensate for the high risks in the business. The single most significant risk was exposure to the volatility in the cost of copper metal. The business made an operating loss of £0.3 million in 2006 but this loss increased to £1.7 million in the first half of 2007 on revenues of £60.9 million and £26.8 million respectively.

The loss on sale of the discontinued operation including costs was £12.3 million which is lower than that shown in the Interim Report. This is due to the consideration being dependent on finalisation of the completion accounts and the value of assets sold on 3 September. The consideration for the stock at 30 June, included in the assets held for sale, was capped but by the date of the sale the stock levels had been reduced to below the level of the cap and the discount against assets sold was thereby reduced.

Dividends and earnings per share

The final dividend proposed is 6.36p per share, bringing the total dividend for the year to 10.05p which is the same as last year. The dividend cover from ongoing operations for this year has improved to 1.5 times (2006: 1.4 times before exceptional gain).

Basic earnings per share on continuing operations were 15.5p, an improvement of 10 per cent over 2006 which were 14.1p excluding exceptional items. This is based on earnings of £24.0 million (2006: £28.0 million less £8.8 million curtailment and £2.6 million of related tax).

Taxation

The overall rate of tax is 28 per cent (2006: 30 per cent). The additional cash contributions to the pension funds made in the UK are largely an allowable deduction for tax and this, with the termination losses of the business of AEI Cables Limited, and losses brought forward gave rise to unrelieved tax losses carried forward of £13.9 million. There are no other significant unrelieved losses carried forward elsewhere in the group's non-UK operations. The reduction in the tax rates in Germany from approximately 39 per cent to 30 per cent will benefit the group with a reduced tax burden for 2008.

Treasury and borrowings

	2007 £million	2006 £million
Net bank borrowings	**75.0**	71.0
Cash generated from operations	**42.9**	32.1
Capital expenditure	**29.4**	20.6
	Days	Days
Debtor days outstanding	**47**	53
Creditor days	**46**	43
Inventory days	**78**	72

The group's banking facilities, all of which are unsecured, are provided by a £70 million committed multi-currency facility which expires in April 2011, a two year $30 million committed facility which expires in December 2009 and overdraft facilities totalling over £70 million provided by major clearing banks in the UK, Germany and other operating locations around the world.

The major elements of change in the levels of borrowing have been: the increase in working capital of £5.1 million (2006: £27.8 million), a level of capital expenditure which has increased to £29.4 million (2006: £20.6 million) and payments to the pension funds of £15.7 million (2006: £7.0 million) less the proceeds of sale of the cables business of £10.8 million. It is expected that capital expenditure in 2008 will be closer to the depreciation charge and overall payments to the pension funds will reduce to £6 million from £18.5 million in 2007.

The net interest charge for bank loans, overdrafts and cash of £4.2 million was covered nine times by operating profit and at the end of December the group's net gearing was 41 per cent (2006: 45 per cent).

Exposure to risk and uncertainties

Foreign currency

The group's main exposures are to changes in the exchange rate of sterling to the US dollar, the euro and the Chinese yuan. The policy of the group is to minimise, in a cost effective way, the effect of such exposures by hedging the risks. These hedges are achieved by matching foreign currency revenues with an equivalent foreign currency cost or by use of forward exchange contracts, swaps and other derivative instruments.

Price changes

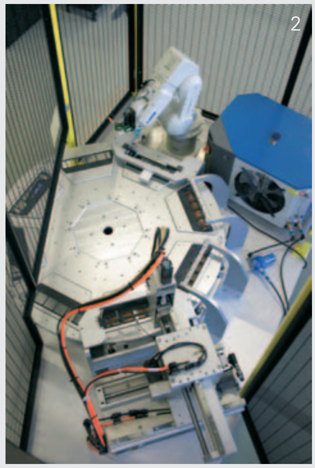
The group's single largest exposure to the risk of changes in the cost of raw materials was to the change in price of copper metal. Following the disposal of the electrical cables business this risk is substantially reduced. There are no other significant exposures to risks from changes in the cost of raw materials.

Interest cost

The group has maintained since 2006, a cap to the interest cost on about one third of the total borrowings.

Commercial and other risks

The group is exposed to risks of product liability, credit risk, reliance on customers' commitments and other usual commercial risks. The group has a wide portfolio of products and operates in a number of market sectors, the largest of which is automotive, most importantly the German automotive OEMs. There are established control procedures in place to manage such risks, including production quality control, management and financial control procedures and insurance with reliable insurers, which are considered appropriate to the risk involved and marketplace in which the exposure arises.



1
TT electronics has made further investment in the infrastructure of its Austrian factory to enable manufacture of our new solid state lighting products to commence.

2
Manufacturing cell based in Austria to produce new solid state lighting products for a major German vehicle manufacturer.

Pensions

All of the significant pension schemes in the UK were merged with effect from April 2007 following which an increase in the cost of the provision of the pension was borne by the members who chose to remain in the scheme. As part of the agreement to these changes, the Company committed to a one-off additional cash contribution of £5.5 million in 2007 and to a plan to eliminate the IAS19 deficit, as re-measured each year, by 2014. Overall payments to the fund totalled £18.5 million (2006: £11.4 million).

These payments together with other changes in the valuation of assets and liabilities, return on assets and the interest cost of liabilities resulted in the deficit being reduced from £72.6 million at December 2006 to £33.0 million at June 2007 and £17.4 million at December 2007.

The changes to the actuarial estimates were £37.8 million and £0.5 million for liabilities and assets respectively. The reduction in the level of liabilities was mainly the result of the discount rate applied to future liabilities increasing from 5.3 per cent at December 2006 to 6.0 per cent at the end of 2007.

The mortality tables used in estimating the pension obligations are PA92 medium cohort plus 2 years and are unchanged from those used in 2006.

Outlook

In the current economic climate, with the global credit crisis still evident, the effect of fluctuating exchange rates and the potential for either recession or at best a slow down in our main markets, we remain cautious about 2008.

Growth in the core sensors and electronic component sectors remains dependent on the new products being developed and favourable market conditions in the automotive and industrial sectors. In the ems and secure power and industrial sectors the outlook overall remains stable with the potential for growth.

Further consolidation of the operations involved in sensors, electronic systems and components particularly in the UK will be completed during 2008, as these operations transfer more of their manufacturing capacity to low labour cost economies. The costs of this will impact the first half of 2008.

The new product ranges and further transfers of manufacturing to low cost regions will secure a brighter future for TT electronics in 2009 and beyond.

Neil A Rodgers
Chief Executive

14 March 2008

Roderick W Weaver
Finance Director

14 March 2008

Directors and Secretary

1
John W Newman (62)
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.

2
Neil A Rodgers (54)
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.

3
Roderick W Weaver FCA (57)
Finance Director
Member of the Corporate Governance Committee

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

4
James W Armstrong (60)
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.

5
David S Crowther (62)
Senior Independent Non-executive Director
Chairman of the Audit and Remuneration Committees and member of the Nominations Committee

Appointed to the Board in 2005. A Chartered Accountant who was a senior partner with PricewaterhouseCoopers LLP. Member of the Professional Oversight Board, a part of the Financial Reporting Council, and a non-executive Board Member and chairman of the Audit Committee of the Treasury Solicitor's Department.

6
David E A Crowe (68)
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 since when he has been a non-executive Director. Previously a senior partner of a City firm of solicitors.

7
John C Shakeshaft (53)
Independent Non-executive Director
Member of the Audit, Remuneration, Nominations and Corporate Governance Committees

Appointed to the Board on 19 July 2007. Currently chairman of Ludgate Environmental Fund Limited; investment director, Corestone, AG and a director of Tele2 AB, Questair Technologies Inc and TEB, NV. Also an external member of the Audit Committee of Cambridge University. Previously a corporate financier with Barings, Lazard and ABN AMRO.

8
Sean M Watson (59)
Independent Non-executive Director
Member of the Remuneration and Nominations Committees

Appointed to the Board on 14 November 2007. A solicitor and senior corporate finance partner at CMS Cameron McKenna LLP and a non-executive Director of Informa plc.

9
Wendy J Sharp ACA (42)
Group Company Secretary
Member of the Corporate Governance and Corporate and Social Responsibility Committees

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2007.

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 and computer, aerospace, defence and other industrial markets. Further details of the group's activities and future plans are set out in the Chairman's statement and the Business review on pages 2 and 12 to 19 of this Annual Report and these should be read as part of the Directors' report.

The principal operating subsidiaries are listed on page 70.

Results and dividends

The group's profit on ordinary activities before taxation was £33.3 million (2006: £40.0 million) and after taxation was £24.0 million (2006: £28.0 million). There was a loss on the discontinued operation of AEI Cables Limited of £11.8 million as described below. The audited financial statements of the group and the Company are set out on pages 36 to 70. Further details of the group's activities are set out in the Business review on pages 12 to 19.

The Directors recommend a final dividend of 6.36p per share (2006: 6.36p) to be paid on 23 May 2008 to ordinary shareholders on the register at 16 May 2008 which, together with the interim dividend paid on 25 October 2007, makes a total of 10.05p for the year (2006: 10.05p).

Disposals

On 3 September 2007 the business and trading assets of AEI Cables Limited were sold. Details of this are set out in note 26 on page 57. This business is reported as the discontinued operation in the audited financial statements.

Fixed assets

No professional valuation of land and buildings has been carried out during the year. In the opinion of the Directors the market value may be up to 30 per cent greater than the net book value of £42.2 million. Land at Gravesend, totalling 33 acres, was sold to the South East England Development Agency ('SEEDA') in 2005 for an initial consideration of £12.5 million. There is the right to an additional consideration which might arise from the onward sale of this land by SEEDA. There is no recognition of this in the Directors' valuation or audited financial statements.

Research and development

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

Financial risk management objectives and policies

These are set out under treasury matters in the Business review on page 18.

Directors

The Directors are listed on page 20 with brief biographical notes. All the Directors held office throughout the year, with the exception of J C Shakeshaft and S M Watson who were appointed on 19 July 2007 and 14 November 2007 respectively. T H Reed and Sir Laurence Magnus retired on 15 May 2007 and 19 July 2007 respectively.

At the forthcoming Annual General Meeting J W Armstrong and N A Rodgers retire and, being eligible, offer themselves for re-election.

J C Shakeshaft and S M Watson, having been appointed since the previous Annual General Meeting, retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

Rules for the appointment and replacement of Directors are set out in the Company's Articles of Association. Directors are appointed by the Board on the recommendation of the Nominations Committee. Directors may also be appointed or removed by the Company by ordinary resolution at a general meeting of holders of ordinary shares. The office of a Director shall be vacated if his resignation is requested by all the other Directors and all the other Directors are not less than three in number. The Corporate governance report sets out further details of the requirements for re-election of Directors on page 25. In addition, further details of the activities of the Nominations Committee are set out on page 27.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs as a result of a takeover bid. Further details of the executive Directors' service contracts can be found in the Directors' remuneration report on pages 30 to 34.

Directors' interests

The Directors of the Company at 31 December 2007 held interests in the following numbers of the Company's ordinary shares of 25p each on 1 January 2007, 31 December 2007 and 10 March 2008:

	10 March 2008 Ordinary shares	31 Dec 2007 Ordinary shares	1 Jan 2007 (or date of appointment if later) Ordinary shares
J W Newman	**9,598,627**	**9,598,627**	16,242,627
N A Rodgers	**17,500**	**17,500**	10,000
R W Weaver	**17,500**	**17,500**	12,500
J W Armstrong	**49,582**	**39,582**	14,582
D E A Crowe	**52,054**	**52,054**	52,054
D S Crowther	**20,000**	**20,000**	10,000
J C Shakeshaft(1)	**7,219**	**7,219**	1,573
S M Watson(2)	**7,700**	**7,700**	7,700

(1) appointed 19 July 2007
(2) appointed 14 November 2007

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 30 to 34.

Share capital

The Company's issued share capital comprises a single class of share capital which is divided into ordinary shares of 25p each. The share capital during the year and the number of ordinary shares reserved for issue are shown in note 15 to the consolidated financial statements. The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the United Kingdom or by writing to the Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Holders of ordinary shares are entitled to speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives and to exercise voting rights. Holders of ordinary shares may also receive a dividend and on a liquidation may share in the assets of the Company.

In addition, holders of ordinary shares are entitled to receive the Company's annual report and accounts. Subject to meeting certain thresholds, holders of ordinary shares may require a general meeting of the Company to be held or the proposal of resolutions at Annual General Meetings.

Authority to Allot Shares and Disapply Statutory Pre-Emption Rights

The Directors will be seeking to renew their authorities to allot unissued shares and to disapply statutory pre-emption rights at the Annual General Meeting to be held on 14 May 2008. Further details are set out in the papers containing details of the Annual General Meeting which accompany this document.

Purchase of Own Shares

At the Annual General Meeting held on 16 May 2007, the Company was given authority to purchase up to 15,479,810 of its ordinary shares until the date of its next Annual General Meeting. No purchases were made during the year. The Directors will be seeking a new authority for the Company to purchase its ordinary shares at the forthcoming Annual General Meeting. Further details are set out in the papers containing details of the Annual General Meeting which accompany this document.

Voting Rights and Restrictions on Transfer of Shares

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. Further details regarding voting at the Annual General Meeting can be found in the Notice of the Annual General Meeting which accompanies this document. None of the ordinary shares carry any special rights with regard to control of the Company. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting. A shareholder can lose his entitlement to vote at a general meeting where that shareholder has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Directors may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Directors may also refuse to register a transfer of a certificated share unless the instrument of transfer: (i) is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Directors accompanied by the certificate for the share to which it relates and / or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; (iii) is in favour of a person who is not a minor, bankrupt or a person in respect of whom an order has been made on the ground that such person is suffering from a mental disorder or is otherwise incapable of managing their affairs; or (iv) is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Directors may decide to suspend the registration of transfers, for up to 30 days a year, by closing the register of shareholders. The Directors cannot suspend the registration of transfers of any uncertificated shares without obtaining consent from CREST.

There are no other restrictions on the transfer of ordinary shares in the Company except:

- certain restrictions may from time to time be imposed by laws and regulations (for example insider trading laws);
- pursuant to the Company's share dealing code whereby the Directors and certain employees of the Company require approval to deal in the Company's shares; and
- where a shareholder with at least a 0.25 per cent interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of ordinary shares or on voting rights.

Substantial shareholdings

At 10 March 2008 the Company had been notified of the following voting rights attaching to TT electronics plc shares in accordance with the Disclosure and Transparency Rules:

	Number	%
Barclays Global Investors	5,163,416	3.3
Legal & General Group plc	9,113,199	5.8
FMR Corp	7,700,000	4.9
Tweedy, Browne Company LLC	8,070,704	5.2
J W Newman(1)	9,452,010	6.1
J O Hambro Capital Management Limited	8,210,128	5.3

(1) 9,432,437 TT electronics shares in which J W Newman has voting rights are held by Newship Investments Limited. Newship Investments Limited is a wholly-owned subsidiary of Newship Industries Limited, in which J W Newman holds a controlling interest.

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.

Articles of Association

The Company's Articles of Association may only be amended by special resolution approved at a general meeting of the shareholders. At the forthcoming Annual General Meeting, a resolution will be put to shareholders proposing the adoption of new Articles of Association. A summary of the principal proposed changes can be found in the Explanatory Notes to the Notice of Annual General Meeting which accompanies this document.

Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday 14 May 2008 at the Ironmongers' Hall, Shaftesbury Place, Barbican, London EC2Y 8AA at 12 noon. The Notice of the Company's Annual General Meeting accompanies this document.

Significant Agreements

The group has a number of borrowing facilities provided by various banking groups. Some of these facility agreements include change of control provisions which, in the event of a change in ownership of the Company, could result in renegotiation or withdrawal of these facilities.

There are a number of other agreements that may be renegotiated upon a change of control of the Company. None is considered to be significant in terms of their potential impact on the business of the group as a whole.

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 46 days of average supplies for the year (2006: 43 days).

Corporate governance

The application of the principles and provisions of the Combined Code is set out in the Directors' report on corporate governance.

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 35 and 61 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;
- make reasonable and prudent judgements and estimates;
- 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 Companies Act 1985 and Article 4 of the IAS Regulation
- 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 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:

W J Sharp
Company Secretary

14 March 2008

Directors' report on corporate governance

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 2006 Combined Code ('Code') contained in the Listing Rules of the Financial Services Authority have been complied with throughout the year ended 31 December 2007 and this compliance has continued through to the date of this report. Details and explanations of the application of the principles of corporate governance are set out below.

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, acquisition and disposal policy and approval of major capital expenditure projects.The Board appoints its members and those of its Committees and reviews recommendations of the Board Committees and the financial performance and operation of each of the group businesses. It regularly reviews the identification, evaluation and management of the principal risks faced by the group and the effectiveness of the group's system of internal control.

Throughout 2007 the Board comprised four executive Directors and at least three non-executive Directors of whom two were considered independent. Following the appointment of S M Watson on 14 November 2007 there are now three independent non-executive Directors.

D S Crowther and D E A Crowe served throughout the year. D S Crowther has been the senior non-executive Director since 16 May 2007 following the retirement of T H Reed on 15 May 2007. Sir Laurence Magnus retired on 19 July 2007. J C Shakeshaft and S M Watson were appointed as non-executive Directors on 19 July 2007 and 14 November 2007 respectively.

All non-executive Directors other than D E A Crowe are considered to be independent as defined by the Code. 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 since when he has been a non-executive Director.

During the year there were seven Board meetings on scheduled dates for which full notice was given. All Directors attended each Board meeting other than D E A Crowe who was unable to attend one meeting. Directors' biographies including the Committees on which they serve and chair are shown on page 20. Each Director will offer himself for re-election 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 defined. At the Annual General Meeting held on 16 May 2007, the executive Chairman announced a reduction in his involvement in the day to day running of the group. The executive Chairman continues to be responsible for the leadership of the Board ensuring that all Directors receive information on financial, business and corporate matters to enable them to participate effectively in Board decisions. He takes an active role in strategic planning and banking relationships and is also directly responsible through the appropriate senior executives for the functions of treasury, pensions and legal matters.

The Chief Executive is responsible for the operations of the group, formulation of strategy, the maximisation of its profits in the long term and ensuring that the group's businesses are managed in line with strategy and approved business plans and comply with applicable legislation and group policy. He also has responsibility for investor relations and risk management.

Under the 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:

- maintaining and improving its performance;
- testing and developing its strategy;
- maintaining the optimum mix of skills and knowledge amongst the Directors;
- ensuring robust and effective risk management; and
- 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.

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 improved where necessary to meet the requirements of the group.

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

The Group Risk Manager maintains the group's 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. More details of the group's exposure to risk is set out in the Business review on pages 12 to 19.

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 largely 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 divisional 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 purpose 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 Group Internal Control Executive, 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 the executive Directors.

The Directors have reviewed the effectiveness of the systems of risk management and internal control during the year to 31 December 2007 and the period since then to the date of this report and have taken appropriate actions for improvement where necessary.

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 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 at least two of the independent non-executive Directors and is chaired by D S Crowther who has recent and relevant financial knowledge. The Committee's duties include reviewing and advising the Board on:

- the integrity of the financial statements.
- the appointment and remuneration of external auditors.
- 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 to ensure that their independence and objectivity are maintained.
- changes to accounting policies and procedures, the judgmental decisions affecting financial reporting, compliance with accounting standards and with the Companies Act.
- the Auditors' assessment of internal audit and other internal controls.
- the scope and performance of the internal audit and other internal control functions and is responsible for reporting to the Board on the effectiveness of the group's internal control systems.
- risk management assessments and recommendations to the Board of any changes to the Register of Principal Risks.
- the Company's written procedures for responding to any allegations made by whistleblowers.

During 2007 the Audit Committee met four times and all 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 30 to 34 includes details of the Remuneration Committee and its work.

c) Nominations Committee

The Nominations Committee comprises all of 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 recommending Board appointments and for the appointment of members to the Audit and Remuneration Committees. In the year 2007 the Committee met four times, during which time it made the appropriate recommendations for the appointments of two non-executive Directors, J C Shakeshaft and S M Watson, and in early 2008 recommended the appointment of S Dasani as Finance Director to replace R W Weaver on his retirement later this year. The Committee has also carried out an assessment of its performance in 2007.

Board and Committee Meeting Attendance 2007

The table below shows the number of meetings held and the attendance of each of the Directors at those meetings.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Total meetings held	**7**	**4**	**4**	**4**
J W Newman	7	n/a	n/a	4
N A Rodgers	7	n/a	n/a	n/a
R W Weaver	7	n/a	n/a	n/a
J W Armstrong	7	n/a	n/a	n/a
D E A Crowe	6	n/a	n/a	n/a
D S Crowther	7	4	4	4
J C Shakeshaft(1)	4	2	1	2
S M Watson(2)	2	n/a	1	n/a
T H Reed(3)	2	1	1	n/a
Sir L H P Magnus(4)	4	2	3	0

(1) appointed 19 July 2007
(2) appointed 14 November 2007
(3) resigned 15 May 2007
(4) resigned 19 July 2007

Corporate Governance Committee

The Corporate Governance Committee is chaired by the Corporate Development Director and also comprises the Finance Director, one non-executive Director, the Company Secretary and the Group Risk Manager. The Committee is responsible for monitoring the group's compliance with good corporate governance. The Committee met three times during the year.

Corporate and Social Responsibility Committee

The Company operates worldwide in a wide variety of environments, with a diverse workforce who are faced with differing challenges and opportunities. In addition to running businesses, managers deal with changing local and transnational regulatory frameworks, and must engage constructively with employees, customers, local residents, regulators and other interested third parties. The Company requires its managers and employees to act with integrity and to conduct business affairs with high standards of ethics. Being a trusted industrial partner and a responsible member of the business community benefits the Company in terms of its reputation and ability to conduct business effectively, as well as assisting in the recruitment, motivation and retention of employees at all levels. The Company's subsidiaries are viewed as valuable participants in their local communities and make significant efforts to foster good relations with local community stakeholders.

Ensuring a safe working environment for employees and reducing wasteful consumption are sound practices. The Company continuously monitors and seeks to improve its performance across its businesses in these areas. The Corporate and Social Responsibility Committee monitors the group's performance on these matters and regularly reports to the Board.

The Corporate and Social Responsibility Committee is chaired by the Chief Executive and also comprises the Group Risk Manager, the Group Legal Counsel, the Company Secretary, and one non-executive Director. The Committee met twice during 2007 and has had one meeting to date during 2008.The Committee's duties include reviewing and advising the Board on:

- Employment

Every company in the group is encouraged to develop and implement employment policies and remuneration arrangements 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 regardless of gender, race, age, religion, disability or sexual orientation. The group makes significant efforts to ensure that high standards of employee welfare are maintained worldwide in all its operations, irrespective of geography and local market conditions.

- 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 the appropriate divisional senior executive. The Chief Executive has responsibility for monitoring appropriate standards of health and safety for the group. In 2008 the group will continue to 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. The Directors are pleased to note a decline in reportable accidents worldwide.

- 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 continuously improve environmental performance and to contribute to long-term economic, environmental and social sustainability. Each major operation is encouraged to attain the ISO 14001 accreditation. At the end of 2007 nearly half of the businesses to which this accreditation is appropriate were ISO 14001 certified and the group has the goal of increasing this during 2008. Group companies continue to:

- encourage energy efficient means of manufacture.
- seek where possible to reduce the use of dangerous, volatile or environmentally damaging chemicals.
- re-use and recycle waste.
- arrange for the responsible disposal of other waste.

Donations

During the year the group contributed £50,000 (2006: £50,000) for charitable purposes. Employees across the group regularly fund-raise for charity.

There were no political contributions.

Communications with shareholders

In addition to the dissemination of such information as is necessary to maintain an orderly market in the shares of the Company, 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.

Approved by the Board on 14 March 2008 and signed on its behalf by:

W J Sharp
Company Secretary

Directors' remuneration report

This report has been prepared in accordance with Schedule 7A of the Companies Act 1985 ('Act'). 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 14 May 2008. It sets out the Company's policy for Directors' remuneration, with details of the arrangements in respect of 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 and since 16 May 2007 has been chaired by D S Crowther (the senior independent non-executive Director) who was previously a member of the Committee. He replaced the previous Chairman, T H Reed, following his retirement from the Board on 15 May 2007. Its other members are J C Shakeshaft, appointed 19 July 2007 and S M Watson, appointed 14 November 2007. Sir Laurence Magnus served as a member of the Committee until his retirement from the Board on 19 July 2007.

In 2007 the Committee met four times and all members of the Committee attended all the meetings; during 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.

The Committee is responsible for appointing external independent consultants to advise on senior executive remuneration matters. This advice was provided during 2007 by Inbucon Consulting and following their advice the Committee established remuneration packages including bonus arrangements for the executive Directors other than the executive Chairman. Since the year end, the Committee has appointed New Bridge Street Consultants LLP ('NBSC') as its advisors.

Remuneration policy

The objectives of the group's remuneration policy are to recruit, retain and motivate senior executives with appropriate expertise to realise the group's business objectives and to align their interests with those of shareholders.

The Committee has instructed NBSC to assist in a review of the remuneration policy, with particular reference to the executive Directors and the senior executive team. The results of the review, and any changes to the remuneration policy, will be disclosed in next year's Remuneration report.

Basic salary

The remuneration policy is to provide senior executives with a basic salary that is competitive with the basic salary paid in other comparable companies.

The basic salaries of executive Directors are reviewed annually at 1 July having regard to personal performance, group performance, competitive market practice as determined by external research and pay levels within the group. Current basic salary levels, together with the previous salaries are set out below:

	1 July 2007	1 July 2006
J W Newman	**£206,617**	£491,946
N A Rodgers	**£330,000**	£258,860
R W Weaver	**£246,000**	£210,376
J W Armstrong	**£190,000**	£162,125

The reduced involvement of J W Newman, the executive Chairman, in the day to day running of the group from 1 July 2007 and the consequent increase in the responsibilities of the other executive Directors are reflected in the above salary changes.

Annual bonus

Executive Directors, excluding J W Newman, participate in an annual bonus arrangement with measurement based on challenging, sliding scale group profit before taxation targets. The objective of the performance linked element of remuneration is to stimulate improved results of the group by providing the opportunity of increased remuneration subject to achieving challenging performance criteria. The maximum potential bonus which can be earned is capped at 100 per cent of salary.

Details of the actual amounts paid to executive Directors for 2007 are set out in the Directors' emoluments table on page 31

Long term incentive plan 2005 ('LTIP')

The LTIP participants may receive annual awards of up to 100 per cent of basic salary per annum. The award is a contingent right to receive shares in the future, subject to continued employment and the achievement of predetermined performance criteria.

Participants make no payment upon the grant, vesting or release of an award (other than such as may be required as a result of tax, social security or other regulatory requirements). Awards will vest three years after the date of grant.

The maximum number of shares which could be issued under this scheme under outstanding grants is 1,144,002.

The performance targets attached to awards granted in 2007 are 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.

The Committee is currently considering appropriate performance targets for awards to be granted in 2008 and thereafter. While the Committee may set different performance targets, any new targets will not, in the opinion of the Committee, be materially less challenging than those described above.

The executive Directors also hold share options granted under legacy plans. It is the Committee's policy not to make further grants to executive Directors under these plans. There are no other share based incentive plans operated by the Company.

Service contracts

Since 2006 the executive Directors, other than the executive Chairman, have had service contracts which reflect 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.

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.

Non-executive Directors

The remuneration of each of the non-executive Directors is decided by the executive members of the Board, reflecting time commitment, responsibility of each role and the fees paid in other comparable companies. Fee increases awarded in 2007 were in line with inflation and the duties performed. No benefits in kind are provided for non-executive Directors.

Audited information

Aggregate Directors' emoluments

Set out below are tables of remuneration of the Directors who served during the year ended 31 December 2007. The amount of each element of the remuneration received and receivable by the Directors in the year including basic salary and fees paid during the year, bonus payable in respect of profits for 2007 and benefits in kind is:

	Salary/fees £000	Bonus £000	Benefits £000	2007 Total £000	2006 Total £000
Executive Directors					
J W Newman(1)	**349**	**–**	**79**	**428**	557
N A Rodgers	**295**	**101**	**31**	**427**	374
R W Weaver	**228**	**82**	**25**	**335**	308
J W Armstrong	**176**	**63**	**20**	**259**	226
Non-executive Directors					
D S Crowther	**37**	**–**	**–**	**37**	29
D E A Crowe	**29**	**–**	**–**	**29**	27
T H Reed(2)	**15**	**–**	**–**	**15**	36
Sir L H P Magnus(3)	**16**	**–**	**–**	**16**	27
J C Shakeshaft(4)	**13**	**–**	**–**	**13**	–
S M Watson(5)	**3**	**–**	**–**	**3**	–
	1,161	**246**	**155**	**1,562**	1,584

(1) part-time since 1 July 2007
(2) retired 15 May 2007
(3) retired 19 July 2007
(4) appointed 19 July 2007
(5) appointed 14 November 2007

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 2007 £000	Transfer value at 31 Dec 2007 £000	Increase in transfer value £000	Transfer value at 31 Dec 2006 £000
J W Newman	**1**	**254**	**3,349**	**252**	3,077
N A Rodgers	**3**	**80**	**866**	**85**	760
R W Weaver	**3**	**90**	**1,102**	**134**	951
J W Armstrong	**3**	**64**	**892**	**99**	780

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 2007.

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 during the year to the executive Directors of the Company:

	Date of grant	Awarded during the year	31 Dec 2007	Market price at grant date pence	Vesting date
J W Newman	16 Jan 07	117,596	117,596	248.0	16 Jan 10
N A Rodgers	16 Jan 07	61,878	61,878	248.0	16 Jan 10
	31 May 07	47,826	47,826	217.5	31 May 10
R W Weaver	16 Jan 07	50,288	50,288	248.0	16 Jan 10
	31 May 07	38,868	38,868	217.5	31 May 10
J W Armstrong	16 Jan 07	38,754	38,754	248.0	16 Jan 10
	31 May 07	29,953	29,953	217.5	31 May 10

The awards made on 16 January 2007 were in respect of 2006 performance.

No consideration is payable for the awards, the terms of which are 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):

	1 January 2007	Lapsed	Exercised	31 December 2007	Exercise price pence	Exercise period
J W Newman	87,743	87,743		**0**(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
	1,172,655	87,743		**1,084,912**		
N A Rodgers	11,142	11,142		**0**(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
	350,646	11,142		**339,504**		
R W Weaver	26,183	26,183		**0**(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	**0**(3)	145.0	May 2007 – May 2014
	48,248			**48,248**(3)	205.5	Apr 2008 – Apr 2015
	629,710	26,183	63,904	**539,623**		
J W Armstrong	2,786	2,786		**0**(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
	442,773	2,786		**439,987**		

Notes

(1,2) 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.

(3) Options granted under the 2004 HMRC Approved and the Unapproved Company 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.

Options granted on 25 May 2004 under the TT electronics plc 2004 Unapproved Company Share Option Plan became exercisable on 25 May 2007, the relevant performance criteria having been met. An option over 63,904 shares was exercised by R W Weaver on 2 July 2007, the market price on that day was 183.0p.

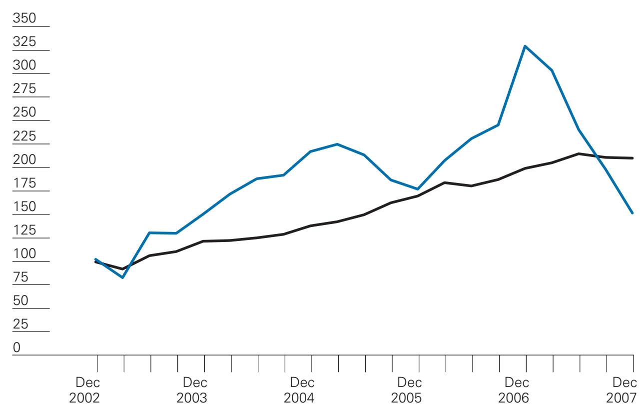
Aggregate gains made by executive Directors in the year were £24,284 (2006: £nil).

During the year options granted to the executive Directors totalling 127,854 shares have lapsed.

The closing middle market prices for an ordinary share of 25p of the Company on 31 December 2007 and 2006 as derived from the Stock Exchange Daily Official List were 112.75p and 260.0p respectively. During the year the middle market price of TT electronics plc ordinary shares ranged between 105.0p and 265.0p.

Total shareholder returns

The Company's total shareholder return performance for the five years to 31 December 2007 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.



Key
TT electronics plc
FTSE All Share

Approved by the Board on 14 March 2008 and signed on its behalf by:

D S Crowther
Chairman of the Remuneration Committee

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 2007 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 31. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on page 61 on the Company financial statements of TT electronics plc for the year ended 31 December 2007 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, financial risk management and results and dividends sections 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 2006 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, the Directors' report on corporate governance, the unaudited part of the Directors' remuneration report and the historical record. 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 2007 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, 14 March 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	2007 £million	2006 £million
Continuing operations			
Revenue	1	**544.9**	539.4
Cost of sales		**(437.0)**	(429.9)
Gross profit		**107.9**	109.5
Distribution costs		**(36.0)**	(34.8)
Administrative expenses		**(35.2)**	(39.2)
Other operating income		**1.0**	1.0
Operating profit before exceptional item	1	**37.7**	36.5
Exceptional item	4	**–**	8.8
Operating profit		**37.7**	45.3
Finance income	2	**18.3**	14.0
Finance costs	2	**(22.7)**	(19.3)
Profit before taxation	1	**33.3**	40.0
Taxation	5	**(9.3)**	(12.0)
Profit for the year from continuing operations		**24.0**	28.0
Discontinued operation			
Loss for the year from discontinued operation	6	**(11.8)**	–
Profit for the year attributable to shareholders		**12.2**	28.0
Earnings per share	8		
From continuing operations			
– basic		**15.5p**	18.1p
– diluted		**15.3p**	17.9p
From continuing and discontinued operations			
– basic		**7.9p**	18.1p
– diluted		**7.8p**	17.9p

Consolidated balance sheet
at 31 December 2007

	Note	2007 £million	2006 £million
Assets			
Non-current assets			
Property, plant and equipment	10	**112.0**	108.6
Goodwill	11	**52.3**	53.1
Other intangible assets	12	**17.3**	16.0
Deferred tax assets	22	**4.2**	21.0
Total non-current assets		**185.8**	198.7
Current assets			
Inventories	13	**91.0**	99.8
Trade and other receivables	14	**95.1**	104.6
Financial derivatives	21	**–**	0.6
Cash and cash equivalents	14	**7.6**	9.5
Total current assets		**193.7**	214.5
Total assets		**379.5**	413.2
Liabilities			
Current liabilities			
Short-term borrowings	20	**16.8**	11.5
Financial derivatives	21	**0.7**	–
Trade and other payables	25	**81.9**	87.3
Current tax payable		**–**	1.3
Provisions for liabilities	24	**0.3**	0.9
Total current liabilities		**99.7**	101.0
Non-current liabilities			
Long-term borrowings	20	**65.8**	69.0
Deferred tax provision	22	**6.0**	5.4
Pensions and other post employment benefits	30	**17.4**	72.6
Provisions for liabilities	24	**0.7**	0.7
Other non-current liabilities	25	**7.6**	7.5
Total non-current liabilities		**97.5**	155.2
Total liabilities		**197.2**	256.2
Net assets		**182.3**	157.0
Equity			
Share capital	15	**38.7**	38.7
Share premium account	16	**0.2**	–
Share options reserve	16	**1.1**	0.8
Hedging and translation reserve	17	**(1.5)**	(6.1)
Retained earnings	18	**141.8**	121.6
Minority interests		**2.0**	2.0
Total equity	19	**182.3**	157.0

Approved by the Directors on 14 March 2008 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 2007

	2007 £million	2006 £million
Profit for the year	**12.2**	28.0
Exchange differences on net foreign currency investments	**4.8**	(9.6)
Hedging reserve	**(0.2)**	–
Actuarial gain on defined benefit pension schemes	**38.3**	3.2
Deferred tax on actuarial gain	**(14.7)**	(1.0)
Total recognised income and expense for the year attributable to shareholders	**40.4**	20.6

Consolidated cash flow statement

for the year ended 31 December 2007

	Note	2007 £million	2006 £million
Operating activities			
Profit for the year		**12.2**	28.0
Adjustments for:			
Finance costs		**4.6**	5.7
Taxation		**8.3**	11.3
Depreciation of property, plant and equipment		**21.7**	23.2
Amortisation of intangible assets		**9.6**	9.1
Share based payment expense		**0.3**	0.3
Gain on disposal of property, plant and equipment		**(2.7)**	(2.0)
Loss on disposal of business		**12.3**	–
Pension curtailment gain		**(1.1)**	(8.8)
Other non cash items		**(1.5)**	0.1
Additional payments to pension funds		**(15.7)**	(7.0)
Operating cash flow before movements in working capital		**48.0**	59.9
Decrease/(increase) in financial derivatives		**1.3**	(1.0)
Increase in inventories		**(5.3)**	(0.8)
Increase in receivables		**(1.3)**	(5.6)
Decrease in payables		**(0.9)**	(14.0)
Exchange differences		**1.1**	(6.4)
Cash generated from operations		**42.9**	32.1
Tax paid		**(7.3)**	(7.0)
Net cash from operating activities		**35.6**	25.1
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(29.4)**	(20.6)
Proceeds from sale of property, plant and equipment and grants received		**7.1**	7.1
Development expenditure and purchase of patents and licences		**(10.1)**	(8.6)
Acquisition of subsidiary net of cash acquired		**–**	(14.7)
Net cash proceeds from sale of business	26	**10.8**	–
Net cash used in investing activities		**(21.6)**	(36.8)
Cash flows from financing activities:			
Interest paid (net)		**(4.7)**	(3.8)
Net changes in long-term borrowings and finance lease liabilities		**0.3**	10.0
Issue of shares		**0.2**	–
Dividends paid		**(15.6)**	(15.6)
Net cash used in financing activities		**(19.8)**	(9.4)
Net decrease in cash and cash equivalents		**(5.8)**	(21.1)
Cash and cash equivalents at beginning of period		**0.7**	22.3
Exchange difference		**(0.1)**	(0.5)
Cash and cash equivalents at end of period		**(5.2)**	0.7
Cash and cash equivalents comprise:			
Cash and cash equivalents	14	**7.6**	9.5
Bank overdrafts	20	**(12.8)**	(8.8)
		(5.2)	0.7

Accounting policies for the consolidated financial statements

The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) as endorsed 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 group has not adopted the latest revisions of: IAS 1; IAS 23; IAS 27; IFRS 3; IFRICs 12,13 and 14 which have not yet been endorsed by the European Union at the date on which these financial statements were approved. IFRS 8 and IFRIC 11 have also not been adopted. The adoption of these revisions and standards would not have had any significant effect on these 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, together with unrealised gains on inter-group transactions, on consolidation.

Revenue recognition

Revenue is the fair value, usually 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 is tested annually for impairment. The net book value of goodwill at the date of transition to IFRS has been treated as deemed cost. 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 tested 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 recognised in equity and reported in the statement of recognised income and expense. All other exchange differences are dealt with through the consolidated income statement. On disposal of an overseas subsidiary any cumulative exchange movements relating to that subsidiary held in the translation reserve are transferred to the consolidated income statement.

The group uses forward currency contracts in order to partially 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 uses hedges 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 schemes and defined contribution pension schemes.

The liability recognised in the balance sheet for defined benefit schemes is the present value of schemes' liabilities less the fair value of schemes' assets. The operating and financing costs of defined benefit schemes 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 unwinding of the discount on schemes' liabilities and the expected return on schemes' assets. Actuarial gains or losses comprising differences between the actual and expected return on schemes' assets, changes in schemes' 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. Such costs are amortised on a straight line basis over three years.

Share based payments

The fair value at the date of grant of share based remuneration is calculated using appropriate pricing models 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 which are subject to similar risks and returns. The secondary format is geographical segments.

Critical judgements in applying the entity's accounting policies

There were no material transactions or events during the year requiring critical judgements in applying the group's accounting policies.

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 £14.3 million at 31 December 2007 is considered to be fairly stated.

ii) Impairment of goodwill

The carrying amount of goodwill is £52.3 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 £17.4 million at 31 December 2007 has been calculated using the assumptions set out in note 30.

iv) Provisions

The group makes appropriate provision on a consistent basis for risks of product liability, credit risk and other normal trading exposures.

Notes to the consolidated financial statements

1. Segmental reporting

On 3 September 2007 the group disposed of the business and net assets of AEI Cables Limited. This transaction meets the criteria of IFRS 5 requiring it to be classified as a discontinued operation. Following this disposal the remaining power transmission businesses no longer fulfil the requirements of a segment and are now reported with the power systems businesses as the secure power and industrial segment.

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

- **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 and higher level assemblies.
- **Secure power and industrial** – standby and continuous power systems, electrical transmission and connection systems and insulation products.

	Revenue		Sector result	
	2007 £million	2006 £million	**2007 £million**	2006 £million
– Sensors and electronic systems	**182.3**	184.8	**10.0**	11.6
– Electronic components	**131.2**	139.9	**10.0**	11.4
– Electronic manufacturing services	**92.2**	72.1	**4.1**	1.3
– Secure power and industrial	**139.2**	142.6	**13.6**	12.2
Total	**544.9**	539.4	**37.7**	36.5
Exceptional operating item (note 4)			**–**	8.8
Operating profit			**37.7**	45.3
Finance income (note 2)			**18.3**	14.0
Finance costs (note 2)			**(22.7)**	(19.3)
Profit before tax			**33.3**	40.0
Taxation (note 5)			**(9.3)**	(12.0)
Profit for the year from continuing operations			**24.0**	28.0

There are no significant sales between sectors.

	Assets		Liabilities		Total capital employed	
	2007 £million	2006 £million	**2007 £million**	2006 £million	**2007 £million**	2006 £million
– Sensors and electronic systems	**134.7**	114.9	**29.6**	27.5	**105.1**	87.4
– Electronic components	**120.8**	118.7	**21.4**	22.8	**99.4**	95.9
– Electronic manufacturing services	**50.2**	49.3	**17.8**	17.9	**32.4**	31.4
– Secure power and industrial	**62.0**	64.1	**21.9**	23.6	**40.1**	40.5
Sector assets and liabilities – continuing operations	**367.7**	347.0	**90.7**	91.8	**277.0**	255.2
Pensions and other post employment benefits	**–**	–	**17.4**	72.6	**(17.4)**	(72.6)
Discontinued operation	**–**	35.7	**–**	4.1	**–**	31.6
Unallocated assets and liabilities	**11.8**	30.5	**89.1**	87.7	**(77.3)**	(57.2)
Total net assets	**379.5**	413.2	**197.2**	256.2	**182.3**	157.0

1. Segmental reporting continued

	Capital additions		Depreciation and amortisation	
	2007 £million	2006 £million	**2007 £million**	2006 £million
– Sensors and electronic systems	**21.3**	15.1	**14.7**	15.1
– Electronic components	**11.0**	8.4	**10.0**	10.1
– Electronic manufacturing services	**2.3**	1.5	**2.4**	1.7
– Secure power and industrial	**4.6**	3.6	**3.5**	4.5
Total – continuing operations	**39.2**	28.6	**30.6**	31.4

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	
	2007 £million	2006 £million	**2007 £million**	2006 £million
United Kingdom	**8.6**	6.6	**102.5**	107.1
Rest of Europe	**21.3**	13.6	**89.1**	70.0
North America	**7.2**	6.7	**139.2**	136.9
Rest of the World	**2.1**	1.7	**36.9**	33.0
Total – continuing operations	**39.2**	28.6	**367.7**	347.0

The group operates globally. Revenue by geographical destination is:

	Continuing operations		Discontinued operation		Total	
	2007 £million	2006 £million	**2007 £million**	2006 £million	**2007 £million**	2006 £million
United Kingdom	**111.2**	115.7	**31.1**	44.0	**142.3**	159.7
Rest of Europe	**201.1**	200.9	**1.6**	3.0	**202.7**	203.9
North America	**149.5**	145.6	**0.1**	2.4	**149.6**	148.0
Rest of the World	**83.1**	77.2	**4.8**	11.5	**87.9**	88.7
	544.9	539.4	**37.6**	60.9	**582.5**	600.3

2. Finance costs – net

	Continuing operations		Discontinued operation		Total	
	2007 £million	2006 £million	**2007 £million**	2006 £million	**2007 £million**	2006 £million
Interest receivable	**0.5**	0.8	**–**	–	**0.5**	0.8
Expected return on pension scheme assets	**17.8**	13.2	**0.7**	1.3	**18.5**	14.5
Finance income	**18.3**	14.0	**0.7**	1.3	**19.0**	15.3
Interest on bank overdrafts and loans	**4.7**	4.0	**0.2**	0.3	**4.9**	4.3
Interest on finance leases	**0.3**	0.3	**–**	–	**0.3**	0.3
Unwinding of the discount on pension scheme liabilities	**17.7**	15.0	**0.7**	1.4	**18.4**	16.4
Finance costs	**22.7**	19.3	**0.9**	1.7	**23.6**	21.0
Finance costs – net	**4.4**	5.3	**0.2**	0.4	**4.6**	5.7

3. Profit for the year

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

	Continuing operations		Discontinued operation		Total	
	2007 £million	2006 £million	2007 £million	2006 £million	2007 £million	2006 £million
Depreciation of property, plant and equipment	21.0	22.3	0.7	0.9	21.7	23.2
Amortisation of intangible assets included in cost of sales	9.6	9.1	–	–	9.6	9.1
Net foreign exchange gains	0.6	(0.4)	–	–	0.6	(0.4)
Cost of inventories recognised as an expense	437.0	429.9	35.0	55.6	472.0	485.5
Employee emoluments	144.2	144.0	6.3	9.4	150.5	153.4
Fees to group Auditors						
– company and consolidation statutory audits	0.2	0.2	–	–	0.2	0.2
Fees to group Auditors and associates						
– statutory audit of subsidiaries	0.6	0.7	–	–	0.6	0.7
– tax services	0.2	0.1	–	–	0.2	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	0.1	–	–	0.1	0.1
– tax services	0.1	0.2	–	–	0.1	0.2
Government grants credited	(1.2)	(0.6)	–	–	(1.2)	(0.6)

4. Exceptional item

	2007 £million	2006 £million
Curtailment of pension scheme benefits	–	8.8

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

There were no exceptional items in 2007.

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	
	2007 £million	2006 £million	**2007 £million**	2006 £million	**2007 £million**	2006 £million
Current tax	**7.1**	6.4	**(1.0)**	(2.8)	**6.1**	3.6
Deferred tax (note 22)	**2.2**	5.6	**–**	2.1	**2.2**	7.7
	9.3	12.0	**(1.0)**	(0.7)	**8.3**	11.3

UK tax is calculated at 30 per cent (2006: 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 28 per cent (2006: 29 per cent).

The tax charge is explained as follows:

	2007 £million	2006 £million
Profit before taxation		
Continuing operations	**33.3**	40.0
Discontinued operation	**(12.8)**	(0.7)
	20.5	39.3
Tax at the UK income tax rate	**6.2**	11.8
Tax rates of non UK subsidiaries	**(0.4)**	(0.7)
Utilisation of losses not previously recognised	**(2.1)**	(5.1)
Losses for which no deferred tax asset is recognised	**4.0**	5.6
Expenses not deductible for tax purposes	**0.8**	0.2
Other	**(0.2)**	(0.5)
	8.3	11.3

6. Discontinued operation

On 3 September 2007 the group sold the business and net trading assets of AEI Cables Limited which completed the group's exit from the cables business. The amount included in the income statement for this disposal comprises:

	2007 £million	2006 £million
Loss after taxation before curtailment gain, see note 26	**(0.6)**	–
Curtailment of pension scheme benefits, see note 30	**1.1**	–
Loss on disposal of business and assets, see note 26	**(12.3)**	–
	(11.8)	–

7. Dividends

The following dividends have been paid in the year:

	2007 pence per share	**2007 £million**	2006 pence per share	2006 £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 23 May 2008. 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 final dividend is £9.9 million.

8. Earnings per share

From continuing operations:

	2007 pence per share	2006 pence per share
Basic	**15.5**	18.1
Diluted	**15.3**	17.9

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 fully diluted earnings per share are reconciled below:

	2007 £million	2006 £million
Profit for the year attributable to shareholders	**12.2**	28.0
Add loss for the year from discontinued operation	**11.8**	–
Earnings from continuing operations	**24.0**	28.0

Weighted average number of shares in issue

	2007 million	2006 million
Basic	**154.9**	154.8
Adjustment for share options	**1.5**	1.4
Diluted	**156.4**	156.2

Earnings per share on continuing operations before exceptional items of 15.5p (2006: 14.1p) is based on the profit for the year of £24.0 million (2006: £28.0 million) adjusted for exceptional items of £nil million (2006: £8.8 million) less the associated taxation of £nil million (2006: £2.6 million).

From continuing and discontinued operations:

	2007 pence per share	2006 pence per share
Basic	**7.9**	18.1
Diluted	**7.8**	17.9

	2007 £million	2006 £million
Profit for the year attributable to shareholders:		
Earnings basic and diluted	**12.2**	28.0

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

From discontinued operation:

	2007 pence per share	2006 pence per share
Basic – loss	**(7.6)**	–
Diluted – loss	**(7.5)**	–

	2007 £million	2006 £million
Loss for the year from discontinued operation	**(11.8)**	–

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

9. Employees

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

	2007 number	2006 number
By function		
Production	**6,709**	6,805
Sales and distribution	**589**	638
Administration	**463**	497
	7,761	7,940
By sector		
– Sensors and electronic systems	**2,429**	2,601
– Electronic components	**2,707**	2,598
– Electronic manufacturing services	**1,070**	888
– Secure power and industrial	**1,340**	1,512
Total continuing operations	**7,546**	7,599
Discontinued operation	**215**	341
Total	**7,761**	7,940

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

	2007 £million	2006 £million
Wages and salaries	**126.2**	128.2
Employers' social security charges	**19.9**	19.1
Employers' pension costs	**4.4**	6.1
	150.5	153.4

Remuneration in respect of the Directors was as follows:

	2007 £million	2006 £million
Emoluments	**1.6**	1.6

Further details of individual Directors' remuneration, pension benefits and share options are shown in the Directors' remuneration report on pages 30 to 34.

10. Property, plant and equipment

	Land and buildings £million	Plant and equipment £million	Total £million
Cost			
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 1 January 2007	55.0	292.6	347.6
Additions	4.9	24.5	29.4
Disposal of business	–	(10.0)	(10.0)
Disposals	(5.7)	(23.0)	(28.7)
Exchange translation differences	1.7	7.2	8.9
At 31 December 2007	**55.9**	**291.3**	**347.2**
Accumulated depreciation and impairment			
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 1 January 2007	12.4	226.6	239.0
Depreciation charge for the year	1.3	20.4	21.7
Disposal of business	–	(8.7)	(8.7)
Eliminated on disposals	(0.4)	(21.8)	(22.2)
Exchange translation differences	0.4	5.0	5.4
At 31 December 2007	**13.7**	**221.5**	**235.2**
Carrying amount:			
At 31 December 2007	**42.2**	**69.8**	**112.0**
At 31 December 2006	42.6	66.0	108.6

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 £0.5 million (2006: £2.5 million) in respect of assets held under finance leases.

11. Goodwill

	£million
Cost	
At 1 January 2006	52.5
Acquisition of subsidiary	6.5
Exchange translation differences	(5.9)
At 1 January 2007	53.1
Exchange translation differences	(0.8)
At 31 December 2007	**52.3**

Goodwill is primarily attributed to the following cash generating units in the sectors shown:

	£million
BI Technologies – Electronic components	22.8
Optek Technology – Sensors and electronic systems	17.4
TT electronic integrated systems – Electronic manufacturing services	5.1
TT Apsco – Electronic manufacturing services	6.2

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 2008-2017. Budgeted cash flows for 2008 were increased by 3 per cent per annum for the first four years and assumed to be flat thereafter. Projected cash flows before taxation were discounted at 10 per cent per annum to calculate their net present value. As a result of these tests, no impairment provisions are considered necessary. The parameters applied are based on current levels of inflation and market rates of return.

12. Other intangible assets

	Development costs £million	Patents and licences £million	Customer relationships £million	Total £million
Cost				
At 1 January 2006	25.6	3.0	–	28.6
Additions	8.6	–	–	8.6
Acquisition	–	–	1.1	1.1
Retirements	(6.9)	–	–	(6.9)
Exchange translation differences	(0.9)	–	–	(0.9)
At 1 January 2007	26.4	3.0	1.1	30.5
Additions	9.5	0.6	–	10.1
Retirements	(9.7)	–	–	(9.7)
Exchange translation differences	1.5	0.1	–	1.6
At 31 December 2007	**27.7**	**3.7**	**1.1**	**32.5**
Amortisation				
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 1 January 2007	13.6	0.8	0.1	14.5
Charge for the year	8.8	0.4	0.4	9.6
Retirements	(9.7)	–	–	(9.7)
Exchange translation differences	0.7	0.1	–	0.8
At 31 December 2007	**13.4**	**1.3**	**0.5**	**15.2**
Carrying amount				
At 31 December 2007	**14.3**	**2.4**	**0.6**	**17.3**
At 31 December 2006	12.8	2.2	1.0	16.0

Development costs are amortised over up to three years and are retired when fully written off. Patents and licences are amortised over ten years. The attributed value of customer relationships are amortised over up to three years.

13. Inventories

	2007 £million	2006 £million
Raw materials	**40.4**	45.0
Work in progress	**19.4**	22.1
Finished goods	**31.2**	32.7
	91.0	99.8

Inventories are stated after deduction of a provision for slow moving and obsolete items of £14.2 million (2006: £17.3 million).

14. Other financial assets and prepayments

	2007 £million	2006 £million
Trade and other receivables		
Trade debtors	**76.8**	90.8
Prepayments	**8.3**	7.7
Other debtors	**8.0**	4.1
Loan to Newship Limited	**2.0**	2.0
	95.1	104.6

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.

	2007 £million	2006 £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 21.

	2007 £million	2006 £million
Cash and cash equivalents	**7.6**	9.5

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

The group's financial assets comprise cash and loans and receivables. The credit risk on the cash and cash equivalents is negligible because the counterparties are banks with high credit ratings. The carrying amount approximates to fair value.

Trade debtors are stated net of an allowance for estimated irrecoverable amounts of £2.2 million (2006: £2.2 million) and the carrying amount approximates to fair value. The group is not reliant on any particular customer in the markets in which it operates and there is no significant concentration of credit risk.

An analysis of the age of trade debtors that were past due at the year end but for which no impairment provision was made is:

	2007 £million	2006 £million
Not more than 3 months	**20.5**	23.7
More than 3 months but not more than 6 months	**1.7**	1.7
More than 6 months but not more than 1 year	**0.3**	0.3
More than one year	**0.3**	0.1
	22.8	25.8

The group has strict procedures in place to ensure debts are not entered into without appropriate authorisation and that they are collected in a timely manner.

Trade debtors are denominated in the currencies in which the group trades. The group's policy is that debtors and creditors not in the functional currency of the subsidiary concerned are covered by forward foreign currency exchange contracts. The exchange risk at group level is therefore restricted to the risk on the translation of overseas assets, liabilities and cash flows into sterling.

Financial assets analysed by currency are:

	2007 £million	2006 £million
Sterling	**32.4**	46.2
US dollar	**19.4**	22.7
Euro	**18.9**	16.6
Other	**23.7**	21.5
	94.4	107.0

15. Share capital

	2007 £million	2006 £million
Authorised		
226,000,000 (2006: 226,000,000) ordinary shares of 25p each	**56.5**	56.5
Issued and fully paid		
154,952,795 (2006: 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

During 2007 154,692 shares were issued for a cash consideration of 145p per share. The Company has share option schemes, which are closed for future grants, and a Long Term Incentive Plan ('LTIP') for senior executives.

Details of the share options outstanding during the year are:

	2007 Number of share options	2007 Weighted average exercise price (p)	2006 Number of share options	2006 Weighted average exercise price (p)
At 1 January	**5,798,564**	**147.9**	7,076,596	150.9
Granted	**–**	**–**	–	–
Forfeited	**(315,555)**	**230.7**	(1,099,057)	135.9
Exercised	**(154,692)**	**145.0**	–	–
Expired	**(192,209)**	**359.0**	(178,975)	340.0
At 31 December	**5,136,108**	**135.0**	5,798,564	147.9
Exercisable at 31 December	**721,445**	**145.0**	–	–

For share options outstanding at 31 December 2007 the range of exercise prices was 80.0p to 300.0p (2006: 80.0p to 359.0p) and the weighted average remaining contractual life was 4.4 years (2006: 5.3 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 criteria 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 Retail Price Index over the same period.

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

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

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.

On 16 January 2007 and 31 May 2007 grants of awards were made under the LTIP for the issue of up to 544,339 and 617,553 shares in 2010. During the year, 18,000 were forfeited and as at 31 December 2007 1,144,002 shares were outstanding.

The award is a contingent right to receive shares in the future, subject to continued employment and the achievement of predetermined performance criteria. The performance targets attached to awards granted in 2007 are 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. Any part of an award that does not vest after three years where the performance criteria is not reached will lapse.

The estimated fair values of the LTIP grants on 16 January 2007 and 31 May 2007 are 220.7p and 190.4p per share respectively. These fair values were calculated using the following inputs:

	16 January	31 May
Share price	248.0p	217.5p
Dividend per annum	10.05p	10.05p
Risk free rate	5.2%	5.6%
Grant vesting	25%	25%

The group charged £0.3 million (2006: £0.3 million) to the Consolidated income statement in respect of share based payments. The charge represents the cost allocated to 2007 in respect of the options issued in 2004 and 2005 and the LTIP grants in 2007.

16. Capital reserves

	Share premium account £million	Share options reserve £million	Total £million
At 1 January 2006	–	0.5	0.5
Share based payments	–	0.3	0.3
At 1 January 2007	–	0.8	0.8
Share issues	0.2	–	0.2
Share based payments	–	0.3	0.3
At 31 December 2007	**0.2**	**1.1**	**1.3**

17. Hedging and translation reserve

	£million
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 1 January 2007	(6.1)
Exchange differences on translation of foreign operations	3.7
Exchange differences on US$124 million borrowings	1.1
Cash flow hedges	(0.2)
At 31 December 2007	**(1.5)**

The cash flow hedges arise from changes in the fair value of the 2008-2010 interest rate cap, £0.1 million, and the 2008 forward foreign exchange contracts designated as profit translation hedges, £0.1 million. The effect in the Consolidated income statement of hedges unwinding was £nil million (2006: £nil million).

18. Retained earnings

	£million
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 1 January 2007	121.6
Profit for the year	12.2
Actuarial net gain on defined benefit pension schemes	38.3
Deferred tax thereon	(14.7)
Dividends paid	(15.6)
At 31 December 2007	**141.8**

19. Shareholders' equity

	£million
At 1 January 2006	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 1 January 2007	157.0
Profit for the year	12.2
Exchange differences on net foreign currency investments	4.8
Actuarial net gain on defined benefit pension schemes	38.3
Deferred tax on actuarial gain	(14.7)
Dividends paid	(15.6)
Share based payments	0.3
Premium on share issues	0.2
Cash flow hedges	(0.2)
At 31 December 2007	**182.3**

Details of movements in the constituent elements of shareholders' equity are given in notes 15, 16, 17 and 18.

20. Borrowings

	2007 £million	2006 £million
Bank overdrafts	**12.8**	8.8
Bank loans	**67.6**	67.6
Finance leases	**2.2**	4.1
	82.6	80.5

The borrowings are repayable as follows:

	2007 £million	2006 £million
In one year or less	**16.8**	11.5
In more than one year but not more than two years	**0.6**	1.0
In more than two years but not more than three years	**1.5**	0.2
In more than three years but not more than four years	**62.5**	1.3
In more than four years but not more than five years	**0.3**	63.6
In more than five years	**0.9**	2.9
In more than one year	**65.8**	69.0

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

	2007 £million	2006 £million
Sterling	**5.2**	4.1
US dollar	**68.1**	70.6
Euro	**8.9**	4.6
Other	**0.4**	1.2

Borrowings of £66.5 million (2006: £69.4 million) are at fixed interest rates for an average period of 0.4 years (2006: 1.4 years).

The average interest rates at the balance sheet date were:

	2007 %	2006 %
Bank overdrafts	**5.7**	7.1
Bank loans	**4.9**	5.6
Finance leases	**7.9**	7.7

The estimated fair value of borrowings is:

	2007 £million	2006 £million
Bank overdrafts	**12.8**	8.8
Bank loans	**67.6**	67.6
Finance leases	**2.2**	4.1

The borrowing facilities available to the group amounted to £164.1 million (2006: £175.5 million).

At 31 December 2007, the group had available £15.4 million (2006: £9.4 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.

The group's liquidity position is kept under regular review. The overdraft facilites are mainly with leading UK clearing banks and major banks in Germany and the USA. The group has sufficient banking facilities to conduct its anticipated level of business in the forseeable future.

Interest rate hedge

At 31 December 2007 the group had two interest rate caps each applying to $50 million. The first caps interest at a rate of 5% up to 4 February 2008 and the second caps interest at a rate of 4.75% from 4 February 2008 to 4 February 2010. These caps are designated as hedges. They are marked to market at the year end. The amount received under the cap and credited to finance costs was £82,000 (2006: £50,000).

Hedge of net investment

The group has designated $124 million (2006: $124 million) of its borrowings as a currency hedge of its US dollar denominated net assets. This is an effective partial hedge. The net result of translating the US dollar net assets and the $124 million of borrowings is dealt with in the translation reserve and reported in the Consolidated statement of recognised income and expense, together with the exchange difference arising from the translation of the group's other overseas net assets.

In 2007 there was a net gain of £4.8 million (2006: loss of £9.6 million) on translation of overseas assets after accounting for this hedge.

21. Derivative financial instruments

	2007		2006	
	Assets £million	Liabilities £million	Assets £million	Liabilities £million
Forward foreign currency contracts	**–**	**0.7**	0.2	–
Interest rate cap	**–**	**–**	0.1	–
Copper forward contract	**–**	**–**	0.3	–
	–	**0.7**	0.6	–

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 further interest rate cap on $50 million of borrowings for the period 4 February 2008 to 4 February 2010 was purchased in November 2007. These caps are designated as hedges of the interest expense relating to the $124 million loan.

The group hedged against the effect of currency movements against sterling on the translation of 2008 profit earned in euros and US dollars, by selling forward euros and US dollars for sterling at fixed exchange rates. At 31 December 2007 contracts were in place for $10 million and euro 4 million. Subsequently contracts for the sale of a further euro 4 million were entered into. The contracts were marked to market at 31 December 2007 and were a net liability of £0.1 million. The hedging of 2007 and 2006 profits were transacted within those years.

The group's financial assets and liabilities are sensitive to movements in currency exchange rates against sterling. Analysis of financial assets and liabilities by currency are given in notes 14 and 25, the major overseas currencies being the US dollar and the euro . The effect of any such currency movement on the net financial liabilities is reported in equity in the group accounts.

US dollar	– effect of 10% strengthening : a reduction in equity of £5.8 million
Euro	– effect of 10% strengthening : no significant net effect

Whilst the group had a net financial liability in US dollars, overall it had a net asset position. Details of the group's exposure to risk and uncertainties are given on page 18 of the Business review.

22. Deferred tax

	Accelerated capital allowances £million	Deferred development costs £million	Tax losses £million	Retirement benefit obligations £million	Other £million	Total £million
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	0.2	–	–	–	0.2	0.4
Charge to equity	–	–	–	(1.0)	–	(1.0)
Exchange differences	0.4	0.1	–	–	(0.5)	–
At 1 January 2007	(5.9)	(3.4)	–	21.9	3.0	15.6
Profit and loss for the year	1.0	(0.7)	–	(2.9)	0.4	(2.2)
Charge to equity	–	–	–	(14.7)	–	(14.7)
Exchange differences	(0.5)	–	–	–	–	(0.5)
At 31 December 2007	**(5.4)**	**(4.1)**	**–**	**4.3**	**3.4**	**(1.8)**

	2007 £million	2006 £million
Deferred tax assets	**4.2**	21.0
Deferred tax liabilities	**(6.0)**	(5.4)

At 31 December 2007 the group has unused tax losses of £13.9 million (2006: £14.1 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 unrecognised deferred tax liability in respect of undistributed earnings of subsidiaries is £2.2 million (2006: £2.8 million).

23. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2007 £million	2006 £million	2007 £million	2006 £million
Amounts payable under finance leases:				
One year or less	**0.4**	0.6	**0.3**	0.3
Between one and five years	**1.4**	2.0	**1.0**	0.9
Over five years	**1.1**	6.1	**0.9**	2.9

The obligations derive mainly from property leases where the risks and rewards of ownership are considered to be with the group and which are therefore accounted for as finance leases. The average implicit interest rate used to evaluate the obligations is 8 per cent (2006: 8 per cent). The fair value of the lease obligation approximates to carrying amount. Total minimum lease payments include £0.7 million (2006: £4.6 million) of future finance costs.

24. Provisions for liabilities

	Environmental £million	Legal and other claims £million	Total £million
At 1 January 2007	1.1	0.5	1.6
Utilised	–	(0.1)	(0.1)
Transfer to Consolidated income statement	(0.5)	–	(0.5)
At 31 December 2007	**0.6**	**0.4**	**1.0**

The transfer to Consolidated income statement arises from reduced estimates of costs to be incurred at a former production site in the USA.

The total provisions are analysed:

	2007 £million	2006 £million
Non-current	**0.7**	0.7
Current	**0.3**	0.9
	1.0	1.6

25. Trade and other payables

	2007 £million	2006 £million
Current liabilities		
Trade creditors	**51.1**	51.8
Taxation and social security	**3.9**	4.7
Other creditors, accruals and deferred income	**26.9**	30.8
	81.9	87.3
Non-current liabilities		
Accruals and deferred income	**5.3**	4.8
Other creditors	**2.3**	2.7
	7.6	7.5

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

Trade and other payables are denominated in the currencies in which the group trades. The group's policy is that trade debtors and creditors not in the functional currency of the subsidiary concerned are covered by forward foreign currency exchange contracts. The exchange risk at group level is therefore restricted to the risk on the translation of overseas assets, liabilities and cash flows into sterling.

Financial liabilities comprising trade and other creditors, bank overdrafts and other borrowings analysed by currency are:

	2007 £million	2006 £million
Sterling	**32.4**	36.3
US Dollar	**77.9**	80.5
Euro	**18.5**	11.8
Other	**13.3**	13.2
	142.1	141.8

26. Disposal of AEI Cables business

On 3 September 2007 the group disposed of the AEI Cables business and net trading assets.

(i) The assets sold and sales consideration were:	2007 £million
Plant and equipment	**1.3**
Inventories	**14.6**
Trade receivables	**11.1**
Trade and other payables	**(3.0)**
Total net assets sold	**24.0**
Cash consideration	**11.3**
Cash costs	**(0.5)**
Cash inflow	**10.8**
Loan note repayable in one year	**0.9**
Net consideration	**11.7**
Loss on disposal	**(12.3)**

(ii)The loss after taxation for the period to 3 September 2007 was	2007 £million	2006 £million
Revenue	**37.6**	60.9
Cost of sales	**(35.0)**	(55.6)
Gross profit	**2.6**	5.3
Expenses	**(4.0)**	(5.6)
Operating loss	**(1.4)**	(0.3)
Finance income	**0.7**	1.3
Finance costs	**(0.9)**	(1.7)
Loss before taxation	**(1.6)**	(0.7)
Taxation	**1.0**	0.7
Loss for the period	**(0.6)**	–
Curtailment gain	**1.1**	–

26. Disposal of AEI Cables business continued

The AEI Cables business contributed the following amounts to the group cash flow

	2007 £million	2006 £million
Net cash from operating activities	**6.7**	(10.3)
Net cash generated from investing activities	**10.5**	0.3
Net cash used in financing activities	**(0.2)**	(0.4)

27. Contingent liabilities

The group has contingent liabilities amounting to £1.4 million (2006: £1.5 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.

28. Capital commitments

	2007 £million	2006 £million
Contractual commitments for the purchase of property, plant and equipment	**7.4**	8.4

29. Operating leases

	2007 £million	2006 £million
Minimum operating lease payments charged to operating profit:		
Fixtures and equipment	**0.3**	0.3
Land and buildings	**4.1**	3.3

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

	2007 £million	2006 £million
In less than one year	**3.5**	3.6
Between one and five years	**7.5**	7.9
After five years	**2.9**	6.7

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.

30. Retirement benefit schemes

Defined contribution schemes

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 were £1.6 million (2006: £1.7 million).

Defined benefit schemes

The group operated four significant defined benefit pension schemes in the United Kingdom and two overseas. The four United Kingdom schemes merged into one with effect from 4 April 2007. In 2007 the Company made a special contribution of £5.5 million in recognition of the merger of the United Kingdom schemes. The Company has committed to eliminate the IAS19 deficit as re-measured each year over the next seven years. The group also operates defined benefit schemes in the United States and Japan. All these schemes are closed to new members. Actuarial valuations of the schemes were carried out by independent qualified actuaries in 2006 and 2007 using the projected unit credit method. These actuarial valuations have been updated by the actuaries to assess the assets and liabilities of the schemes at 31 December 2007. Pension scheme assets are stated at market value at 31 December 2007.

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

	2007 %	2006 %
Discount rate	**6.0**	5.3
Inflation rate	**3.2**	2.9
Increases to pensions in payment	**2.5 – 3.2**	2.5 – 2.9
Salary increases for 3 years (pensionable salaries have been frozen for 3 years)	**–**	–
Salary increases thereafter	**3.7**	3.4

30. Retirement benefit plans continued

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

	2007 Second half	2007 First half	2006
Equities	**7.9**	**7.0**	6.8
Bonds	**5.5**	**4.5**	4.3
Gilts and cash	**4.9**	**4.0**	3.6

The mortality tables applied by the actuaries at 31 December 2007 were PA92 MC + two years.

The amounts recognised on the Consolidated balance sheet are:

	2007 £million	2006 £million	2005 £million	2004 £million
Equities	**182.0**	187.8	170.5	154.6
Bonds	**12.4**	10.9	2.9	4.0
Gilts and cash	**103.8**	73.4	72.3	44.9
Fair value of assets	**298.2**	272.1	245.7	203.5
Present value of funded obligation	**(315.6)**	(344.7)	(335.9)	(274.4)
Net liability recognised on the Consolidated balance sheet	**(17.4)**	(72.6)	(90.2)	(70.9)

The schemes' 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:

	2007 £million	2006 £million
Current service cost	**2.8**	4.4
Interest on obligation	**18.4**	16.4
Expected return on schemes' assets	**(18.5)**	(14.5)

Of the current service cost £2.8 million (2006: £4.4 million), £1.5 million (2006: £1.5 million) is included in cost of sales in the income statement, £0.3 million (2006: £0.3 million) is included in distribution costs and £1.0 million (2006: £2.6 million) is included in administrative expenses. The actual return on schemes' assets was £19.0 million (2006: £23.9 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 a net gain of £5.3 million.

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

	2007 £million	2006 £million
Opening defined benefit obligation	**344.7**	335.9
Current service cost	**2.8**	4.4
Interest on obligation	**18.4**	16.4
Scheme participant contributions	**1.5**	1.5
Curtailment, see exceptional item, note 4	**(1.1)**	(8.8)
Change in actuarial estimates and assumptions	**(37.8)**	6.2
Exchange differences	**–**	(0.8)
Benefits paid	**(12.9)**	(10.1)
Closing defined benefit obligation	**315.6**	344.7

Changes in the fair value of schemes' assets are:

	2007 £million	2006 £million
Opening fair value of schemes' assets	**272.1**	245.7
Expected return on schemes' assets	**18.5**	14.5
Excess of actual over expected returns	**0.5**	9.4
Contributions by employer	**18.5**	11.4
Contributions by employees	**1.5**	1.5
Exchange differences	**–**	(0.3)
Benefits paid	**(12.9)**	(10.1)
Closing fair value of schemes' assets	**298.2**	272.1

30. Retirement benefit plans continued

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

	2007 £million	2006 £million	2005 £million	2004 £million
Experience adjustments on schemes' liabilities	**37.8**	(6.2)	(47.6)	(19.1)
Experience adjustments on schemes' assets	**0.5**	9.4	21.6	8.9

The group expects to contribute approximately £6 million to defined benefit plans in 2008.

31. 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		Rents paid		Rents received	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
TT electronics plc	**1**	1	**–**	–	**165**	160	**28**	27
Subsidiaries	**–**	–	**–**	2	**3**	3	**–**	–
	1	1	**–**	2	**168**	163	**28**	27

	Amounts owed by related parties		Amounts owed to related parties	
	2007 £000	2006 £000	2007 £000	2006 £000
TT electronics plc	**5**	3	**16**	16
Subsidiaries	**–**	–	**–**	–
	5	3	**16**	16

Sales and purchases of goods and services were on normal credit terms at third party prices. Rentals, which included for premises used by J W Newman in performing duties as executive Chairman, were calculated on open market bases and paid to agreed terms.

As part of the demerger from TT electronics on 14 May 2001 two 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 £130,000 (2006: £113,000) of which £34,000 (2006: £nil) was outstanding at the year end.

Compensation of key management personnel

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

	2007 £million	2006 £million
Short-term benefits	**2.7**	2.1
Post-employment benefits	**0.2**	0.3
Share based payments	**0.1**	0.1
	3.0	2.5

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 2007 which comprise the balance sheet, the accounting policies for the Company financial statements and notes 1 to 13. 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 35 on the consolidated financial statements of TT electronics plc for the year ended 31 December 2007.

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, financial risk management and results and dividends sections 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, the Business review, the Directors' report on corporate governance and the historical record. 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 2007;
- 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, 14 March 2008

Company balance sheet

at 31 December 2007

	Note	2007 £million	2006 £million
Fixed assets			
Tangible assets	1	**2.4**	2.5
Investments	2	**139.3**	139.3
		141.7	141.8
Current assets			
Debtors	3	**105.8**	123.6
Financial derivatives	5	**–**	0.1
Cash at bank and in hand		**0.3**	–
		106.1	123.7
Creditors: amounts falling due within one year	4	**(5.5)**	(4.1)
Net current assets		**100.6**	119.6
Total assets less current liabilities		**242.3**	261.4
Creditors: amounts falling due after more than one year	4	**(62.2)**	(63.4)
Total net assets		**180.1**	198.0
Capital and reserves			
Share capital	6	**38.7**	38.7
Share premium	8	**0.2**	–
Profit and loss account	8	**141.2**	159.3
Shareholders' funds		**180.1**	198.0

Approved by the Directors on 14 March 2008 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 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

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 2007	2.9	0.8	3.7
Disposals	–	(0.1)	(0.1)
Cost at 31 December 2007	**2.9**	**0.7**	**3.6**
Depreciation at 1 January 2007	0.6	0.6	1.2
Charge for the year	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
Depreciation at 31 December 2007	**0.6**	**0.6**	**1.2**
Net book amounts			
At 31 December 2007	**2.3**	**0.1**	**2.4**
At 31 December 2006	2.3	0.2	2.5

Freehold land and buildings includes a carrying value for freehold land of £0.6 million (2006: £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 2007 and 31 December 2006	**139.3**

The Company's principal operating subsidiary undertakings and the location of their principal operations are shown in note 13.

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, Padmini TT Electronics Private Limited which is 51per 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. Debtors

	2007 £million	2006 £million
Amounts falling due within one year		
Trade debtors	**0.1**	0.2
Amounts owed by subsidiary undertakings	**93.6**	115.6
Prepayments and accrued income	**1.0**	0.5
Corporation tax	**9.1**	5.3
Loan to Newship Limited	**2.0**	–
	105.8	121.6
Amounts falling due after more than one year		
Loan to Newship Limited	**–**	2.0
	105.8	123.6

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.

4. Creditors

	2007 £million	2006 £million
Amounts falling due within one year		
Bank overdrafts (note 5)	**–**	0.1
Trade creditors	**0.5**	0.4
Amounts owed to subsidiary undertakings	**1.7**	0.8
Taxation and social security	**0.5**	0.7
Accruals and deferred income	**2.8**	2.1
	5.5	4.1
Amounts falling due after more than one year		
Bank loans (note 5)	**62.2**	63.4

5. 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% for the period 2 February 2006 to 4 February 2008 for $50 million of its borrowings. In November 2007 a further interest rate cap of 4.75% on $50 million of borrowings was purchased for the period 4 February 2008 to 4 February 2010.

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

	2007 £million	2006 £million
Sterling	–	0.4
US dollars	62.2	63.1
	62.2	63.5

The borrowings are repayable as follows:

	2007 £million	2006 £million
On demand or within one year	–	0.1
In the fourth year	62.2	–
In the fifth year	–	63.4
	62.2	63.5

The fair value of borrowings is the same as their carrying value. At 31 December 2007, the Company had committed undrawn borrowing facilities available of £7.8 million (2006: £6.6 million). There are other substantial committed and uncommitted borrowing facilities available to the group.

Financial derivatives

	2007 £million	2006 £million
Current assets		
Interest rate cap	–	0.1

6. Share capital

	2007 £million	2006 £million
Authorised		
226,000,000 (2006: 226,000,000) ordinary shares of 25p each	56.5	56.5
Issued called up and fully paid		
154,952,795 (2006: 154,798,103) ordinary shares of 25p each	38.7	38.7

Ordinary shares of 25p each are equity share capital. During 2007 154,692 shares were issued for a cash consideration of 145p per share.

Share option schemes

At 31 December 2007 options were exercisable over 5,136,108 (2006: 5,798,654) ordinary shares under the group share option schemes up to 2015. Subscription prices range from 80.0p to 300.0p with a weighted average of 135.0p. Subsequent to 31 December 2007 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 2006, 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 1,161,322 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
24.03.2001	62,138	300.0
31.03.2002	104,541	177.5
28.03.2003	190,252	91.5
18.04.2004	192,595	163.0
03.04.2005	275,921	165.0
26.03.2006	335,875	80.0

1996 Executive scheme

This scheme for senior executives was approved at the Annual General Meeting on 14 May 1996. The options outstanding at the date of this report are over 2,612,758 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
24.03.2001	79,249	300.0
31.03.2002	76,108	177.5
15.09.2002	367,645	136.0
28.03.2003	416,766	91.5
18.04.2004	102,130	163.0
23.05.2004	336,083	166.0
03.04.2005	300,980	165.0
26.03.2006	933,797	80.0

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

2004 Approved Plan

This scheme for senior executives was approved at the Annual General Meeting on 19 May 2004. The options outstanding at the date of this report are over 284,476 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
25.05.2007	151,500	145.0
07.04.2008	132,976	205.5

6. 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 1,077,552 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
25.05.2007	569,945	145.0
07.04.2008	507,607	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.

Long Term Incentive Plan 2005

This scheme for senior executives was approved at the Extraordinary General Meeting held on 20 October 2006. On 16 January 2007 and 31 May 2007 grants of awards were made under the Long Term Incentive Plan 2005 for the issue of up to 544,339 and 617,553 shares in 2010. The awards outstanding at the date of this report are over 1,144,002 ordinary shares and such awards potentially vest on the following dates:

Vest	Shares
16.01.2010	536,449
31.05.2010	607,553

The award is a contingent right to receive shares in the future, subject to continued employment and the achievement of predetermined performance criteria. The performance targets attached to awards granted in 2007 are 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. Any part of an award that does not vest after 3 years where the performance criterion is not reached will lapse.

7. Share based payments

Details of the share options issued are given in note 6. The basis of calculation of the share based payments, are given in the consolidated financial statements, note 15.

8. Reserves

	Share premium £million	Profit and loss account £million
At 1 January 2007	–	159.3
Shares issued	0.2	–
Final dividend 2006	–	(9.9)
Interim dividend 2007	–	(5.7)
Share based payment	–	0.2
Loss for the year	–	(2.7)
At 31 December 2007	**0.2**	**141.2**

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.

9. Guarantees and financial commitments

Financial commitments relating to bank loans are set out in note 5. The Company has no guarantees or contingent financial commitments.

10. Obligations under operating leases

The operating lease payments due within one year to which the Company was committed at 31 December 2007 were:

	Land and buildings £million	Other £million	2007 Total £million	Land and buildings £million	Other £million	2006 Total £million
On leases expiring:						
Within one year	**0.2**	**–**	**0.2**	–	0.1	0.1
Between two and five years	**0.2**	**0.1**	**0.3**	0.6	–	0.6
Over five years	**0.4**	**–**	**0.4**	0.4	–	0.4
	0.8	**0.1**	**0.9**	1.0	0.1	1.1

11. 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 2007 were £14.0 million (2006: £4.1 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 2007. The market value of the scheme's assets at the year end was £291.1 million and the present value of the scheme's liabilities was £306.6 million.

Further details and an analysis of the group's pension schemes are given in note 30 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 2007 were £59,000 (2006: £33,000).

12. Employees

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

	2007 number	2006 number
By function		
Administration	**50**	48

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

	2007 £million	2006 £million
Wages and salaries	**4.3**	4.0
Employer's social security charges	**0.5**	0.4
Employer's pension contributions	**14.1**	4.1
	18.9	8.5

Remuneration in respect of the Directors was as follows:

	2007 £million	2006 £million
Emoluments	**1.6**	1.6

Further details of individual Directors' remuneration, pension benefits and share options are shown in the Directors' remuneration report on pages 30 to 34.

13. Principal operating subsidiaries

The principal operating subsidiaries are:

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
Padmini TT Electronics Private Limited, India

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

Secure power and industrial

Dale Power Solutions plc
Ottomotores SA de CV, Mexico
AB Connectors 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.

Historical record

Accounting year		2007	2006	2005	IFRS 2004	UK GAAP 2003
Revenue	(£million)	**544.9**	539.4	503.8	505.9	472.8
Profit before taxation	(£million)	**33.3**	31.2	24.5	31.6	4.8
Earnings per ordinary share	(p)	**15.5**	14.1	10.6	13.7	11.5
Earnings	(£million)	**24.0**	21.8	16.4	21.2	17.8
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)	**154.9**	154.8	154.8	154.8	154.8
Shareholders' funds	(£million)	**182.3**	157.0	151.7	166.7	196.1

Notes
1 Results have been adjusted where appropriate to exclude discontinued operations.
2 Profit before taxation and earnings are 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 14 May 2008 at 12 noon at the Ironmongers' Hall, Shaftesbury Place, Barbican, London EC2Y 8AA.

Results

Announcement of 2008 half year results – late August 2008.

Preliminary announcement of 2008 results – late March 2009.

Annual report 2008 – to be posted mid April 2009.

Dividends

The final dividend in respect of the year to 31 December 2007 will be paid on 23 May 2008 to those shareholders on the register on 16 May 2008. Shares ex dividend on 14 May 2008.

The interim dividend in respect of the year to 31 December 2008 will be paid in late October 2008.

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 Equiniti Limited at the address given below.

Share dealing services

Shareview Dealing is a telephone and internet service provided by Equiniti 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 0871 384 2020 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 0871 384 2248. 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 Equiniti.

Shareholder enquiries

Equiniti 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:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone 0871 384 2396
Fax 0871 384 2100

Textphone for shareholders with hearing difficulties
0871 384 2255

Equiniti 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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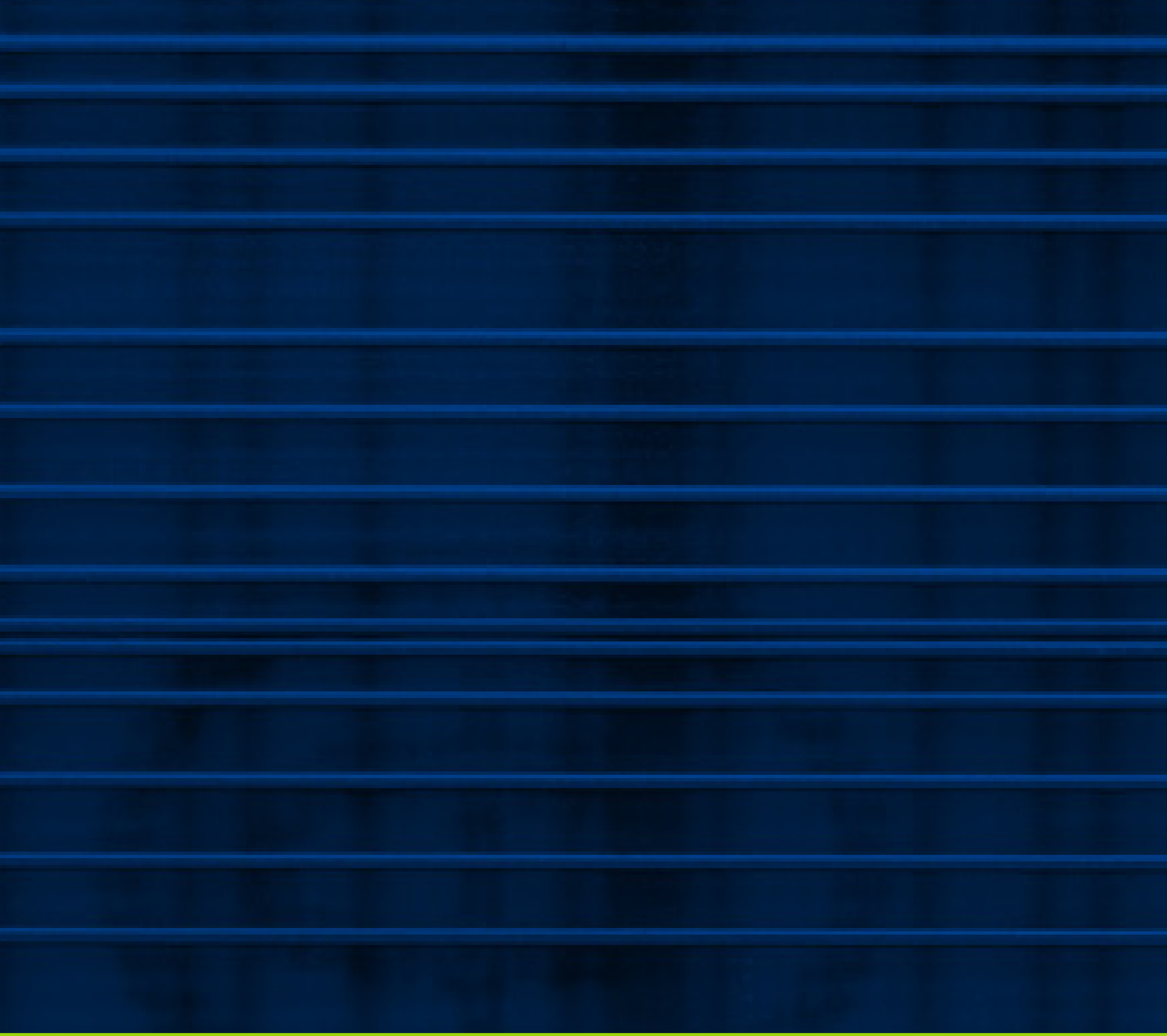

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Cover image
This is a printed circuit board for a 'multi-axis' Autopad® sensor. The sensor is used for detecting the position of an object with several degrees of freedom, namely 'x' and 'y' lateral positions and rotation.

9.5 x magnification