TT electronics plc Annual Report 2010

Delivering **operational excellence**

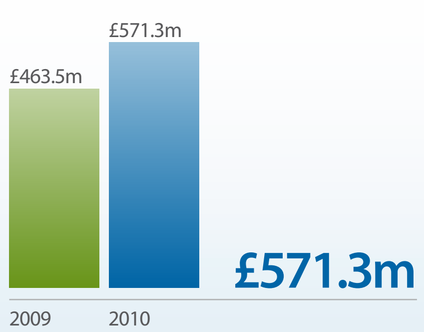
Who we are

TT electronics is a world leader in sensor and electronic component technology supplying leading manufacturers in the defence, aerospace, medical, transportation and industrial electronics markets.

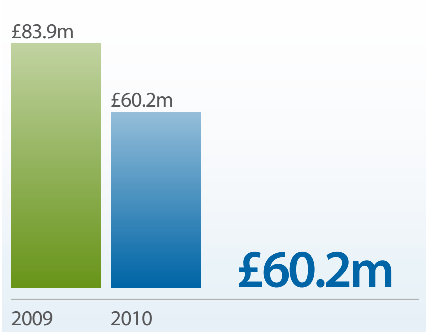
We provide innovative solutions to meet customers' critical needs, focusing where we can create the greatest value through a differentiated position based on our technology and engineering expertise, customer service and manufacturing capabilities.

Group highlights

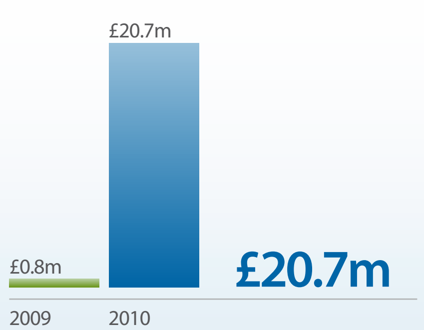
Revenue[1]



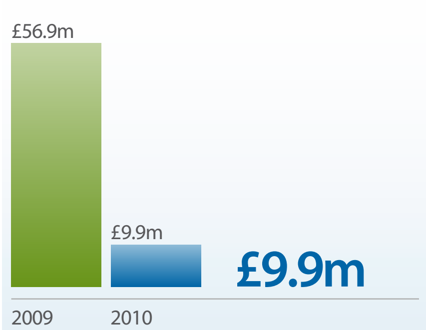
Underlying operating cash flow



Profit before taxation[1]



Net debt



Significant progress in delivering the Group's strategy, coupled with a much improved financial performance and increased margins

Strengthening customer relationships and positions in emerging markets leading to increased opportunities

Robust revenue growth of 23 per cent resulting from actions taken to re-position the Group and a recovery in end markets

Major improvement in operating profit to £29.7 million for 2010 (£25.2 million before exceptional items)

Disposal of six businesses within the General Industrial division generating £21.7 million of cash proceeds

Significant reduction in the Group's net debt to £9.9 million, providing a strong financial platform for the further development of the business

Re-instatement of the dividend with an interim dividend of 0.8 pence per share paid and a recommended final dividend for 2010 of 2.0 pence per share

[1] Continuing operations before exceptional items

Chairman's statement

Our strategy is to create value for our customers through the provision of innovative solutions which meet their critical needs.

23.3%
Group revenue growth

3.0% points*
Improvement in Group operating margin

I am delighted to report excellent progress in delivering the Group's strategy and a significantly improved financial performance. During 2010 we focused on delivering operational improvements and investing in our people, creating a strong platform for sustainable growth.

*For continuing operations before exceptional items

As a result of our actions and the recovery in many of our markets, Group revenue from continuing operations increased by 23.3 per cent to £571.3 million (2009: £463.5 million). Operating profit from continuing operations before exceptional items was £25.2 million compared with £6.4 million in 2009, delivering an operating margin of 4.4 per cent (2009: 1.4 per cent). This represents good progress towards the Group's medium-term margin target of eight to ten per cent and I am confident that the actions we continue to take will lead to a further improvement in performance in 2011.

Headline EPS from continuing operations was 9.0 pence compared with a loss per share of 1.2 pence in 2009. In line with our policy to increase dividends progressively whilst maintaining cover of at least two times headline EPS and in recognition of our strong performance the Board is recommending a final dividend of 2.0 pence per share giving a total dividend for 2010 of 2.8 pence per share.

Our strategy is to create value for our customers by providing innovative solutions which meet their critical needs, focusing on those markets where we can establish a differentiated position based on our technology and engineering expertise, customer service and manufacturing capabilities. A number of steps were taken during the year to improve alignment with our key customers and markets. In the Components division we began to change the way we develop and bring our products to market with the introduction of global business units focused around specific technologies and markets. In addition, both the Sensors and Components divisions completed the move to global management structures resulting in improved engagement with key customers. In our manufacturing facilities we are driving increasing efficiencies under the leadership of global operations directors appointed in both divisions during the past year.

In addition to building our presence in market segments where we can create clearly differentiated positions based on our technology and applications expertise, we increased our presence in emerging markets. Revenue from customers in Asia increased by 49 per cent (at constant exchange rates) and constituted 13 per cent of overall Group revenue. We made significant progress in China and India.

Customer feedback has confirmed that our key account management programme is providing them with demonstrable benefits and the rate of revenue growth in 2010 from the initial 14 key accounts exceeded that of the Group overall. Further accounts will be added to the programme in 2011.

We remain committed to the development of our people who are key to the delivery of our strategy. Reflecting this emphasis we invested in teams across the globe and appointed the Group's first permanent HR director. We have completed the Group's first all-employee survey which has provided a valuable insight into employee opinions and engagement. All businesses have plans in place to drive improvement in selected areas.

In line with our strategy to manage the General Industrial division for value, six businesses were successfully sold during the year. I am very pleased with the proceeds we have realised from these disposals which are ahead of the Board's expectations overall, and with our success in finding new owners positioned to support the businesses' future development.

Closing net debt was £9.9 million (2009: £56.9 million) with the reduction resulting from strong underlying cash generation, continued progress in managing working capital and the proceeds from the business disposals. The closing net debt position together with the Group's borrowing facilities, which amount to over £110 million, provide a strong financial platform for the further development of the business, including through additional strategic investments to supplement the Group's organic growth.

The UK defined benefit pension scheme was closed to future accrual in April 2010 and the liabilities under the plan have reduced. The triennial valuation as at 5 April 2010 shows a deficit of £39.8 million, reduced from £59.6 million three years previously. The deficit recovery plan previously agreed with the Trustee in December 2008 has been confirmed.

I assumed the role of Chairman following the Annual General Meeting in May. In September, Mike Baunton joined the Board as an independent non-executive Director. Mike previously held senior roles with a number of major international manufacturers and brings a wealth of engineering and production experience.

Increased emphasis has been placed on corporate governance and a more in-depth approach introduced to assess Board performance, with greater focus being given to succession planning and risk management. No major changes to our procedures have been necessary as a result of the publication of the UK Corporate Governance Code.

Following strong growth in 2010, the prospects for 2011 are encouraging. I am confident that our management and organisational structures, our focus on building differentiated positions in key markets, and the completion of the transformation of the Group in line with the strategy will deliver a further improvement in performance.

Finally, on behalf of the Board, I would like to thank our employees for their commitment and dedication – it is through their hard work that we have delivered the significant progress we have seen in 2010.

Sean M Watson Chairman

16 March 2011

How our Group is organised

Our divisional structure

The Group has five divisions grouped into three strategic categories:

Strategic Focus
(Components and Sensors)

Scalable Development
(Integrated Manufacturing Services (IMS) and Secure Power)

Run for Value
(General Industrial)

Within this framework each division has a strategy to achieve value for our shareholders, underpinned by clearly aligned priorities, organisational structure and resources.

Components
Speciality and custom passive components, optoelectronics, microelectronic modules, semiconductor products, connectors and harnesses.

More detail on page 6

Sensors
Highly engineered custom sensor solutions for specific transportation and industrial applications.

More detail on page 6

IMS
Outsourced manufacturing and supply chain solutions for customers with lower volume, complex build and assembly electronic products.

More detail on page 7

Secure Power
Secure power solutions including generator sets, uninterruptible power supplies and service for customers' critical power requirements worldwide.

More detail on page 7

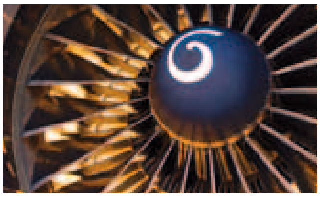
General Industrial
A diverse range of market sectors with a variety of products and services. During 2010 all but two of the businesses were sold.

More detail on page 7

Our markets

We are focused on markets where we can create the greatest value:

Defence and aerospace



The Components and IMS divisions supply electronic components and systems engineered to operate in demanding environments with a high degree of reliability, together with manufacturing services to original equipment manufacturers (OEMs) and their suppliers.

Medical

The Components, Sensors and IMS divisions design products such as precision resistors, optical and position sensors and microcircuits for use in applications including diagnostic, imaging and laboratory equipment and patient monitoring systems, together with manufacturing services.

Transportation

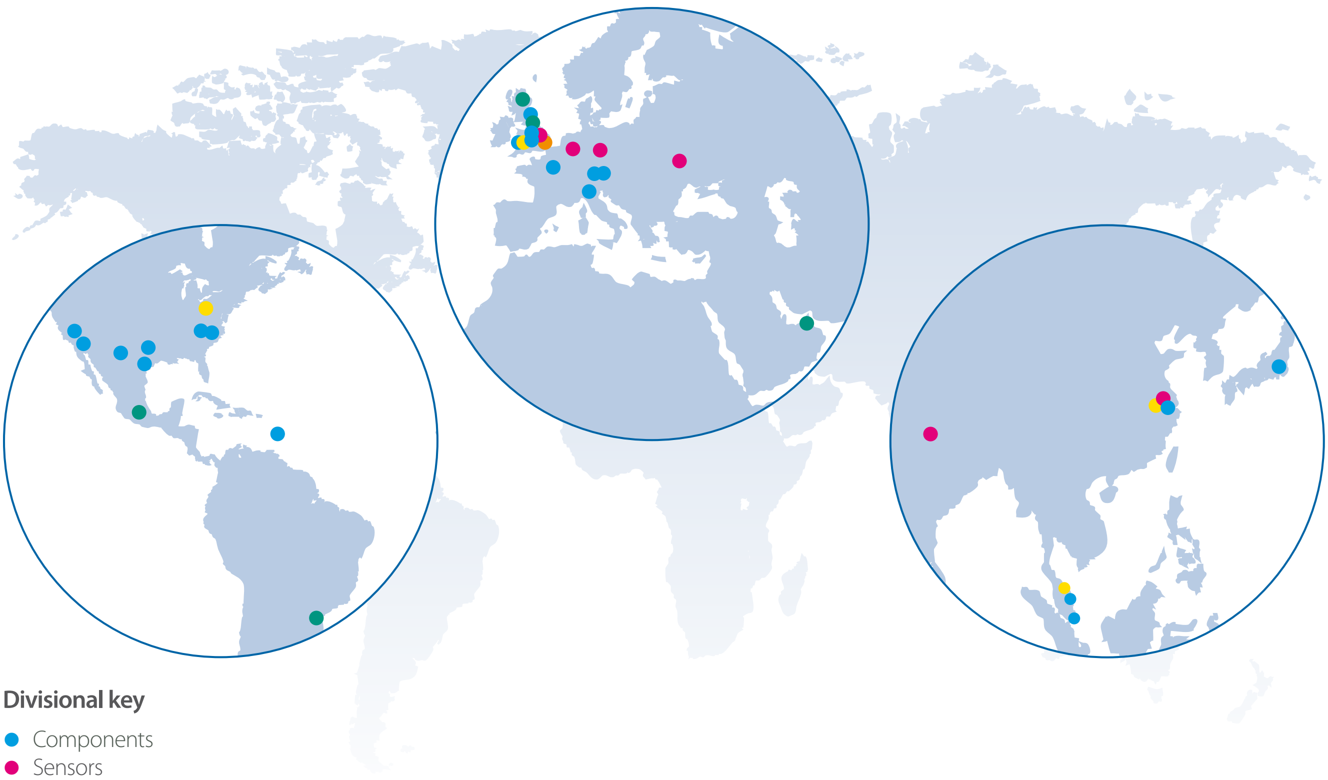
The Components and Sensors divisions provide highly engineered sensing solutions and electronic components for applications requiring a high degree of reliability and accuracy, often in extreme temperatures and harsh environments.

Industrial

We are a leading supplier to the diverse industrial market with a focus on applications such as smart power management, building controls, automation and alternative energy where our broad technology and design capabilities enable us to provide innovative solutions.

Our global presence

Our operations



Divisional key

- Components
- Sensors
- IMS
- Secure Power
- General Industrial

The Americas

- Christchurch, Barbados
- Curitiba, Brazil
- Juarez, Mexico
- Mexicali, Mexico
- Mexico City, Mexico
- Fullerton, California
- Boone, North Carolina
- Smithfield, North Carolina
- Perry, Ohio
- Corpus Christi, Texas
- Dallas, Texas

Contribution to Group revenue 28%

Europe and Middle East

- Salzburg, Austria
- Paris, France
- Milan, Italy
- Klingenberg, Germany
- Munich, Germany
- Werne, Germany
- Dubai, UAE
- Kiev, Ukraine
- Abercynon, UK
- Aberdeen, UK
- Bedlington, UK
- Cambridge, UK
- Fairford, UK
- Lutterworth, UK
- Rogerstone, UK
- Sandwich, UK
- Scarborough, UK

Contribution to Group revenue 59%

Asia

- Suzhou, China
- Kuantan, Malaysia
- Gurgaon, India
- Tokyo, Japan
- Singapore

Contribution to Group revenue 13%

Our Group at a glance

TT electronics plc is a world leader in sensor and electronic component technology supplying leading manufacturers in markets including defence and aerospace, medical, transportation and industrial. We operate from more than 20 major manufacturing locations worldwide.

The Group consists of five divisions. In 2010 total revenues for the Group from continuing operations were £571.3 million with more than 6,000 people employed worldwide.

For further information on our Group please visit:

www.ttelectronics.com

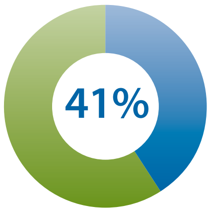
Components

Supported by a global network of application sales engineers, the Components division provides engineered electronic components including fixed and variable resistors, optoelectronics, power modules, control circuitry and interconnect solutions for multiple applications, particularly where reliability, performance and packaging considerations are critical.

Key growth drivers are the increased use of complex control electronics, the need for electronics to operate in harsh environments and the increase in circuit speeds, power and miniaturisation.

Revenue	£234.6m
Operating profit	£10.7m

Proportion of Group revenue



Markets served

industrial,
defence and aerospace,
medical,
transportation

Products

Dynamic braking resistors using thick film on steel technology for motor drive applications where extremely high overloads occur

Infrared reflective sensor used to detect objects and movements in automation equipment, paper handling systems and ATMs

More detail on pages 26 and 27

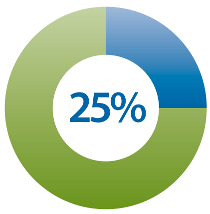
Sensors

Supplies high performance custom sensing solutions to the transportation and industrial markets. Products include speed, direction, position, temperature and pressure sensor assemblies for critical applications in areas such as the chassis, powertrain and transmission.

The division is focused on growing in the attractive broader transportation, and selective industrial segments, together with critical automotive applications linked to emissions and safety.

Revenue	£143.5m
Operating profit	£3.9m

Proportion of Group revenue



Markets served

transportation,
industrial

Products

High temperature sensor used in exhaust gas treatment system to help reduce environmental pollution

Speed sensor with direction sensitive electronics to optimise the powertrain of cars with start/stop technology

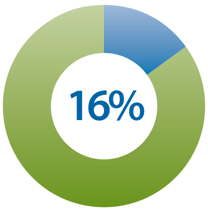
More detail on pages 28 and 29

IMS

Specialises in providing high quality electronic manufacturing services to customers in the defence and aerospace, medical and premium industrial sectors. The division offers a broad capability from board assembly to full systems integration, design for manufacturing and logistics support. The business is focused on higher mix/lower volume business with a strategy to move towards more specialised integrated assembly.

Revenue £91.4m
Operating profit £4.3m

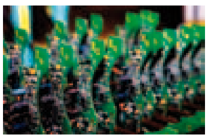
Proportion of Group revenue

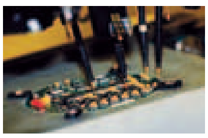


Markets served

industrial,
defence and aerospace,
medical

Services





The division provides outsourced manufacturing solutions across the entire product lifecycle from design to bespoke logistics

More detail on pages 30 and 31

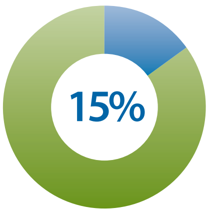
Secure Power

Provides secure power solutions including generating sets, uninterruptible power supplies and customer support from operations in the UK, Mexico, Brazil and the Middle East.

Secure Power protects customers' critical power supplies with a reputation for bespoke engineered solutions designed for the most demanding applications, with a particular focus on the petrochemical, medical, utilities and financial services sectors.

Revenue £85.2m
Operating profit £6.2m

Proportion of Group revenue

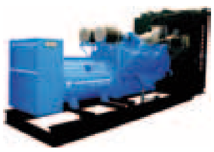


Markets served

industrial

Products

40kVA parallel redundant industrial UPS system providing emergency power for offshore oil and gas platforms



2000 kVA diesel generating set designed to supply continuous or emergency power and capable of operating in extreme climate conditions

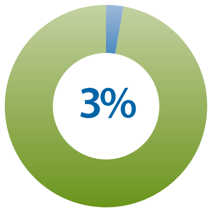
More detail on pages 32 and 33

General Industrial

At 31 December 2010 comprised AEI Compounds, providing specialist compounds for the cable and pipe markets and Abtest, providing environmental testing services. General Industrial also included a number of businesses sold in 2010 which served a range of market sectors. The businesses sold gave rise to an operating profit of £0.7 million in the year on revenue of £28.4 million.

Revenue £16.6m
Operating profit £0.1m

Proportion of Group revenue

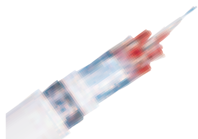


Markets served

industrial

Products

Low voltage power cable with flame retardant insulation



Data communication cable insulated with thermoplastic flame retardant material

More detail on page 34

Our strategy and business model

Our approach

Our strategy

To create value for our customers through the innovative application of our technology combined with excellence in customer service and delivery from world-class manufacturing facilities, whilst providing growth opportunities for our people.

Creating a platform for sustainable growth

Through our people

More detail on pages 20 and 21

Through operational excellence

→ Customer focus

→ Technology and innovation

→ Operational delivery

More detail on pages 14 and 19

Our resources

Customer relationships and global sales channels

By developing existing customer relationships and building new ones we will deliver long-term value for all stakeholders. We work closely with many leading companies, understanding their requirements and collaborating to develop solutions which enable them to meet their objectives. Our global presence allows us to access markets worldwide and support customers as they move into new regions.

Engineering expertise

Our engineering talent is a key strength. Research and development teams bring new products and technologies to market, with specific subject matter experts sharing knowledge across the Group. Our application or field engineers then work alongside customer teams to understand their requirements, creating value through the design of bespoke solutions to solve their problems.

Worldwide manufacturing operations

As customers continue to rationalise their supply bases and seek to partner with companies that can provide global support, our world-class facilities in North and South America, Europe and Asia provide us with the capability to manufacture products where it makes the most sense for us and our customers.

Our people

The knowledge, passion and commitment of our people underpin our ability to deliver innovative solutions and are the foundation for the Group's future growth. We have systems in place to identify and develop key talent and we are working across the business to further engage and empower our employees.

Underpinned by our Core Values

Customer driven

We are in business to deliver value to our customers. All that we do is geared to providing world-class products and the best possible customer experience.

Integrity

We will always be straightforward and transparent in our dealings. Upholding high ethical standards and maintaining integrity are cornerstones of our business. We are committed to our corporate and social responsibilities.

Passion for excellence

We stretch ourselves to make the difference and look for continuous improvements by constantly challenging the status quo.

How we create value

We provide innovative solutions to meet customers' critical needs, focusing on those markets where we can create the greatest value through a differentiated position based on our technology and engineering expertise, customer service and manufacturing capabilities.

We support our customers, wherever they are, through our global sales network and manufacturing footprint. Our worldwide presence is a key enabler as we build long-term partnerships with our customers, supporting them as they develop and grow.

Components

Our applications engineers, with their extensive subject matter expertise, use the Group's technology to partner with customers early in their design processes providing them with the highly engineered electronic components they need to bring their products to market. The division is focused on markets which have the greatest need for bespoke solutions to address issues such as higher power, faster switching, harsh environments and reduced size.

Sensors

We use our core technology building blocks and engineering expertise to provide highly engineered sensing solutions targeting critical transportation and industrial applications where the sensor must operate with a high degree of reliability and accuracy, often in extreme temperatures and harsh environments. Our reputation and experience gained with major automotive OEMs provide a solid foundation as we further develop our position in the broader transportation and industrial markets.

IMS

Using our design engineering capabilities, flexibility and world-class facilities we partner with customers to build their more complex products, typically found in the industrial, medical and defence and aerospace markets. We create value by delivering an end-to-end outsourced manufacturing service (from design to delivery) for lower volume more highly engineered products, combined with worldwide support.

Secure Power

Utilising our engineering capability we provide bespoke turnkey solutions for major one-off projects as well as providing differentiated medium to high power generating sets to meet specific market needs. We focus on providing solutions to markets with critical power requirements such as petrochemical, financial services and utilities where our reputation for quality, reliability and service are valued.

More information on each division can be found on pages 26 to 34

People focused

Success for our business will be determined by our people. We aim to attract, retain and develop high quality staff and ensure that they are fully committed and positively engaged.

Innovative problem solving

We pride ourselves on our ability to solve our customers' problems, focusing on delivering innovative solutions in a timely manner.

Teamwork

Teamwork underpins our business. We encourage a team-working environment, constantly challenging each other whilst maintaining mutual respect and a clear focus on the achievement of common goals.

Implementing our strategy

A clear framework for priorities

We have a clear plan to develop the Group in three phases (set out in the diagram below).

Having completed Phase I, in which we established a clear strategy and direction for the Group and put in place the required senior management team and organisational structures, we are now focused on Phase II. Everything we do is aligned with the delivery of the strategy through the execution of detailed plans at both a Group and divisional level to create a platform for sustainable medium- and long-term growth. Although at an early stage, work has begun to identify additional strategic investments to supplement the Group's organic growth.

Phase I 2009–2010

- → Complete strategy review and announce to market
- → Reorganise divisional structures
- → Bolster senior management team
- → Undertake restructuring to "right size" business
- → Identify (and begin to exploit) inter-divisional and cross-divisional opportunities
- → Begin cultural change

Phase II 2010–2011

- → Execution
  - → Developing people
  - → Focus on "Operational Excellence"
    - • Customer focus
    - • Technology and innovation
    - • Operational delivery
  - → Embed new management processes and systems to support execution
- → Focus resources into development of Components, Sensors, Secure Power and IMS

Phase III 2011–2012

- → Core Business "Fit for Purpose"
- → Focus on accelerating growth
  - → Organic
  - → Acquisitions

We continually test the strategy and our progress against short- and long-term goals

The Group's strategy is reviewed, tested and adjusted through our annual strategic review process.

This involves detailed discussion with the individual businesses and divisions before the strategy is endorsed by the Board. Priorities at a Group, divisional and business unit level are agreed in line with the strategy, with progress reviewed regularly. These priorities are integrated into the Group's performance management system. In addition, progress against short- and long-term goals is monitored through key performance indicators, a sub-set of which is published on pages 12 and 13.

Progress against our goals

Our key goals	Progress
Align the organisation with the strategic objectives of the Group, recognising that our employees are critical to our success	New operational and organisational structures have been implemented in the Components and Sensors divisions aligned with delivery of the strategic objectives (see pages 27 and 28 for more detail). Our on-line performance management tool has been extended to cover over 400 employees worldwide. In addition to allowing us to assess performance and identify development needs, it enables objectives to be set and tracked throughout the year, ensuring that these are aligned with the Group's strategic priorities. We have undertaken an employee survey to assess engagement and have identified improvement actions. The senior management team was strengthened during the year with a number of key appointments including a new leader for the Components division and the Group's first permanent HR director.
Achieve operational excellence in the ways in which we interface with our customers, develop and market our technologies and manufacture our products	Our key account management programme continues to strengthen customer relationships. The rate of revenue growth in 2010 from the initial 14 key accounts exceeded that of the Group overall and additional accounts will be added in 2011. In addition to the formal programme, key account management principles are being used to improve our interaction with other customers. The global management structure implemented in the Components division during 2010 is changing the way we develop and bring our products to market, with the introduction of global business units focused around specific technologies and end markets. In addition, a number of other functions that were historically aligned with individual companies have now been re-configured in both the Components and Sensors divisions. Global operations directors have been appointed to manage manufacturing worldwide, build on existing lean manufacturing techniques and deliver continued improvements and efficiencies.
Increase our presence in higher growth and higher margin markets	We have identified a number of markets which we believe provide opportunities for higher growth and margins based on our technology and engineering expertise, customer service and manufacturing capabilities. These include the defence and aerospace, medical and alternative energy markets where we have virtual teams who bring together the capabilities of the Group to enhance our customer offering. We have also identified segments within the automotive, broader transportation and industrial markets which we believe represent good growth opportunities. We are continuing to invest in developing our presence in emerging markets including Latin America, China and India. We made good progress in these markets in 2010 reflecting both the increased opportunity and our ongoing investment.
Deliver a significant increase in shareholder value through the further development of our core Components and Sensors divisions	Both divisions delivered good growth in revenue and profit following a difficult 2009, together with progress against the strategic priorities identified at the start of the year. Further details for each division are set out on pages 26 to 29.
Develop the IMS and Secure Power divisions through increased management focus and investment	Both divisions made progress during the year against their strategic plans including significant investment in the sales area and a greater focus on specific target markets. Further details for each division are set out on pages 30 to 33.

Measuring our performance

We use a number of financial and non-financial key performance indicators (KPIs) to measure our performance

Financial KPIs

Organic revenue growth

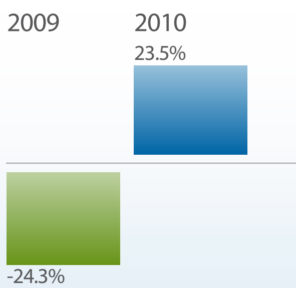
Definition

Organic revenue growth measures the change in revenue in the current year compared with the prior year, from continuing Group operations. The effect of currency movements and acquisitions made during the current or prior financial year have been removed.

We have chosen this specific KPI because our strategy is to participate in markets which have the ability to provide us with growth opportunities.

Performance

Organic revenue growth benefited from the actions taken to re-position the Group and the global economic recovery during 2010.



Target
each year, 2010 to 2014
Mid to high single digits

Earnings per share (EPS) growth

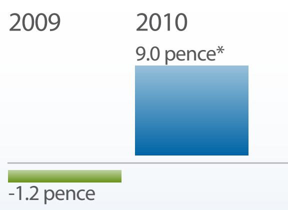
Definition

EPS growth is calculated as profit before exceptional items from continuing operations attributable to shareholders divided by the weighted average number of shares in issue during the year.

We have chosen EPS growth as a KPI as it is a standard metric to determine corporate profitability for shareholders. In addition, it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan – see further detail on page 56.

Performance

There was a significant improvement in EPS during the year from a loss of 1.2 pence per share to a profit of 9.0 pence per share.



Target
Year on year growth of 3% in excess of RPI

*Actual EPS as 2009 was a loss per share

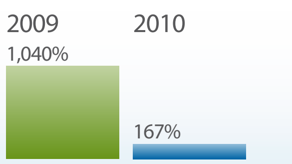
Operating cash conversion

Definition

Operating cash conversion is defined as cash generated from continuing operations after capital and development expenditure, expressed as a percentage of operating profit before exceptional items from continuing operations. Cash conversion is an important metric to track the management of our working capital and capital expenditure programme.

Performance

The cash conversion target of 100 per cent was exceeded in 2010 due to the delivery of operational efficiencies and active management of the Group's working capital.



Target
each year, 2010 to 2012
100%

Relative total shareholder return (TSR)

Definition

TSR is defined as capital growth plus dividends paid, assuming dividends are re-invested over the period using a three-month opening and closing average.

We believe that TSR is an important measure of the delivery of shareholder value as well as relative performance. In addition, it is a measure used as one of the performance conditions in the Group's Long Term Incentive Plan – see further detail on page 56.

Performance

There was a strong improvement in the Group's share price during 2010 resulting in a TSR of 126.0 per cent compared to the median of the comparator group of 12.2 per cent.

2009	2010	Target
Between median and upper quartile	Upper quartile	**Above median performance against the FTSE Small Cap (excluding investment trusts)**

Financial KPIs

Operating profit margin

Definition

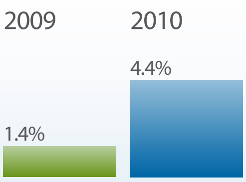
Operating profit margin is defined as operating profit before exceptional items from continuing operations expressed as a percentage of revenue from continuing operations.

This KPI is appropriate because we are focused on increasing the proportion of revenue from those markets where we can make higher returns, in addition to delivering an improvement in operational efficiency.

Performance

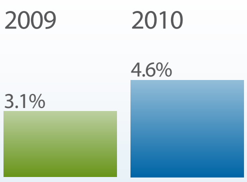
Operating margins improved in all businesses with the exception of Secure Power, reflecting higher volumes, benefits from restructuring undertaken in prior periods and continuing actions to re-position the business.

Group



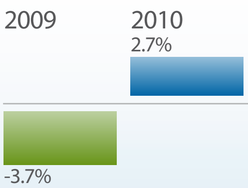
Target
in medium term
8-10%

Components



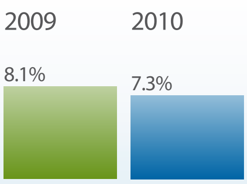
Target
in medium term
10%

Sensors



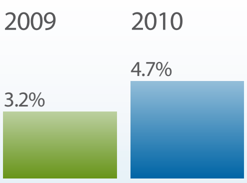
Target
in longer term
10%

Secure Power



Target
in short term
10%

IMS



Target
in medium term
6-8%

Non-financial KPIs

Safety performance

Definition

The number of occupational injuries resulting in three or more days absence per 1,000 employees.

This KPI allows us to compare our performance with that of our peers. We use a UK benchmark published by the Health and Safety Executive and apply this to all of our facilities worldwide reflecting our commitment to raise standards globally. Some minor differences remain in how our businesses report data in different geographies and this will be standardised in 2011.

Performance

Performance was adversely affected by our facility in Mexico where improvement actions are in place. Excluding this site, the Group's accident rate would have been 4.0.

2010	Target in medium term
8.5	**Lower than UK manufacturing benchmark, 2010: 6.1**

Employee engagement

Definition

During 2010, 68% of the workforce participated in our first employee survey, compared with an industry benchmark of 48 per cent. A key indicator is overall employee engagement, measured using a scale of 1 (low) to 7 (high) and benchmarked against mid-size UK manufacturing companies as surveyed by Best Companies Ltd.

This KPI is important because our ability to recruit, maintain and develop engaged and committed employees is critical to our continued success.

Performance

For an initial survey the results were satisfactory and improvement plans are in place in all divisions.

2010	Target in medium term
4.28	**Achieve UK mid-size manufacturing benchmark, 2010: 4.47**

Training and communities

We are committed to investing in the development of all our employees and in the communities in which they live and work.

We help employees enhance and develop their skills. For example, in 2010 four employees in the Sensors division achieved green belt certification in Six Sigma lean manufacturing methodology. In China we have instituted a graduate programme to provide us with the skilled employees we need as we further develop our presence in this key region. We plan to introduce structured development programmes for senior management during 2011.

Although at an early stage, we made progress in 2010 to raise the profile of the work our employees are doing to support local communities worldwide. More details are set out on page 40.

Delivering operational excellence

Delivering operational excellence through customer

Building the business by sharpening customer focus

The key account management programme is enabling us to foster closer working relationships with our customers.

It provides an operating framework that aligns our global manufacturing, development and sales and support resources with our key customers to support their current and future needs.

Partnering with IBM

In 2010 IBM placed significant demands on their component supply chain, including their key resistor technology suppliers, due to a significant growth in demand for their servers. The TT electronics Key Account Manager for IBM successfully co-ordinated engineering and manufacturing resources to meet the increased demand. Our speed of response, flexibility and ability to work globally with IBM in the US and its subcontractors in Europe and Asia has strengthened the customer relationship and resulted in an increase in business.

focus

Overview
Business review
Governance
Financial statements
Shareholder information

Delivering operational excellence

Delivering
operational excellence through

technology innovation

Technology and innovation deliver our competitive advantage

We understand that optimised product designs need bespoke components. Our customers rely on us to develop differentiated technical solutions which meet their specific performance, reliability and packaging requirements. Energy management is an exciting growth sector where we are putting our engineering and applications expertise into practice.

Smart metering protection

A leading global meter manufacturer approached our applications engineering team with a demanding component specification. A vital protection barrier against the effects of lightning strikes, the new part needed to be 50 per cent shorter than available alternatives, whilst delivering on performance, reliability and price.

The solution was to sink the component body into an opening in the circuit board and adapt it for cost-effective automated assembly. The unique terminal configuration and innovative mounting technique provided a competitive edge to our customer in the drive to advance green initiatives through intelligent energy management. Most importantly, the critical protection performance was assured by custom design and testing.

and

Delivering operational excellence

Delivering operational excellence through

operational

Focusing on continuous improvement in our operations

Many of our businesses have signed up to 21st Century Supply Chains ("SC21"), a change programme designed to boost the competitiveness of the defence and aerospace industry by raising the performance of its supply chains.

SC21 in action

Through the SC21 programme, we are committed to continuously improving quality and innovation to provide the most competitive solutions for our customers. The programme drives an increased focus on all stages of the product development and manufacturing cycle within the SC21 accreditation framework. Each participant is sponsored by, and works closely with, a major defence and aerospace customer creating stronger business partnerships. Sustainability is realised by reinforcing a culture of continuous improvement through the participation and empowerment of our teams as they work to improve their own processes and procedures.

delivery

Delivering operational excellence

Delivering operational excellence through people

Helping our people fulfil their true potential

The engagement of our workforce, their belief in our future, and a real sense of belonging is crucial to the success of our business. As the Group increases its presence in new regions, this is presenting exciting opportunities for our existing employees as we develop our teams in emerging markets.

A global citizen

The opportunities for personal and professional growth are perfectly demonstrated by Asif Baig (pictured, left). Asif joined the Sensors division in 1997 after completing his academic studies and an apprenticeship in Pakistan. Having worked for the Group in Germany and the UK, Asif has now moved to China to be a key member of the local team which is being strengthened to meet rapidly increasing customer demand. Progressing from supervisor, through test and development and quality to global support team leader, Asif's career is a practical example of individual development, global opportunity and a commitment to the business and its customers.

Business review
Delivering operational excellence

Geraint Anderson Group Chief Executive

Shatish D Dasani Group Finance Director

16 March 2011

The Group is well positioned in its markets with a clear strategy to deliver value to all stakeholders.

TT electronics today is about operational excellence, focusing on the customer and improving performance across the business through manufacturing and product innovation, all driven by our people.

Group overview

During 2010 we invested in our people and focused on operational excellence across the business. This is creating a strong platform for sustainable growth and margin improvement for the medium and long term. Many of the actions taken to improve performance will continue in 2011 as we progress the transformation of the Group into a best-in-class global business.

New talent was brought into the Group with a number of senior management appointments including a new Divisional Chief Executive for the Components division. Reflecting the importance of our people, the Group's first permanent HR director was appointed and divisional HR leaders for the core Sensors and Components divisions joined in early 2011. We have completed the first Group employee survey to assess engagement and identify improvement actions and our on-line performance management tool has been extended to cover more than 400 senior employees worldwide. We have invested in teams across all locations with a significant focus on increasing our presence in emerging markets, a trend which is expected to accelerate in 2011.

Our operational excellence programme targets three areas: (i) customer focus; (ii) technology and innovation; and (iii) operational delivery.

"Changes have been made to the sales organisations in the Components and Sensors divisions with global sales teams now ensuring better engagement with our customers."

Changes have been made to the sales organisations in the Components and Sensors divisions with global sales teams now ensuring better engagement with our customers. As reported on page 11, the key account management programme is progressing and additional key accounts will be added in 2011. As customers continue to seek efficiencies from their supply chains we are evolving our business structures and IT systems, making it easier for them to transact with the Group.

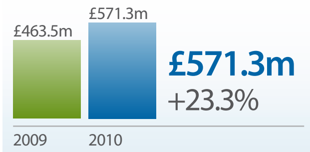
Global management structures implemented in the Sensors and Components divisions during 2010 are changing the way we develop and bring our products to market. For example, in the Components division, global business units are being introduced focused around specific technologies and end markets, bringing together previously separate marketing and engineering teams to deliver co-ordinated product development programmes aligned with customer needs. The first such business unit was established in October 2010 and the remainder will be in place by mid 2011.

Improving the efficiency and productivity of the Group's manufacturing operations remains a key focus. Operations directors were appointed in the Sensors and Components divisions in 2010 with responsibility for driving better performance worldwide. Good progress was made during the year and further areas for improvement have been identified for 2011. We continue to build on existing lean manufacturing techniques across all businesses.

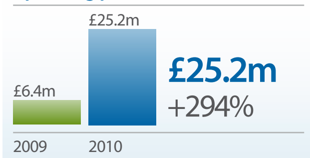
Further information on each of the three key areas is set out on pages 14 to 21, with more detail by division on pages 26 to 33.

We have identified a number of markets which we believe provide opportunities for higher growth and margins based on our technology and engineering expertise, customer service and manufacturing capabilities. These include defence and aerospace, medical, non-passenger car transportation and certain industrial segments.

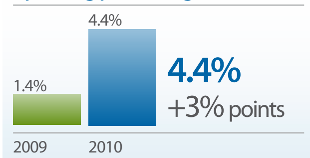
Revenue



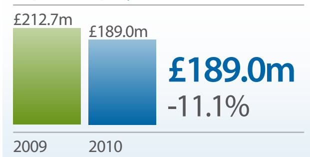
Operating profit*



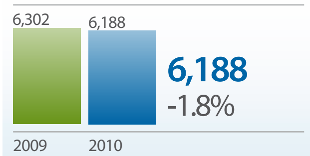
Operating profit margin*



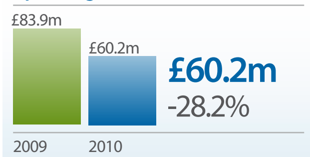
Capital employed



Year end headcount



Operating cash flow*



*Before exceptional items

Business review continued

Delivering operational excellence continued

23.3%
Group revenue growth

4.4%*
Operating profit margin

Group overview continued

Particularly good progress was made during the year in developing our position in the medical market with revenue increasing from £15.2 million in 2009 to £26.9 million in 2010. Although sales to the passenger car market increased in absolute terms, they represented a slightly smaller proportion of total Group revenue in 2010, decreasing from 34.6 per cent in 2009 to 32.0 per cent in 2010. Revenue from other transportation segments (excluding passenger cars) increased from £18.9 million in 2009 to £34.1 million in 2010.

Each of the divisions has identified specific segments within the broader markets where they can create the greatest value for their customers. New business from these target segments is forming a growing proportion of total revenue as existing programmes come to an end and new contracts move into volume production. However this can take a number of years, particularly in the automotive arena which has long product lifecycles, and in the case of outsourced manufacturing where it takes time to bring new programmes into production.

Despite an increase in product sold to customers in Asia of 49 per cent in 2010 (at constant exchange rates), the Group remains under represented in this region, which contributed 13 per cent of sales in the period (compared to 28 per cent for North, Central and South America and 57 per cent for Europe). However, it should be noted that this analysis does not include product sold to customers based outside Asia, but whose end customer is located within the region. As we look to develop a more balanced business, good opportunities exist for growth in Asia for the Sensors, Components and IMS divisions as they build on the progress made in 2010. We are also looking to invest in expanding our manufacturing capabilities in Eastern Europe in 2011.

In line with the strategy to manage the General Industrial division for value, six businesses were successfully sold during the year realising net proceeds of £21.7 million, ahead of the Board's expectations. Additional deferred consideration of approximately £1.0 million is expected to be received in 2011. Although at an early stage, work has begun to identify additional strategic investments to supplement the Group's organic growth.

"As we look to develop a more balanced business, good opportunities exist for growth in Asia for the Sensors, Components and IMS divisions as they build on the progress made in 2010."

*Before exceptional items

Market conditions

Trading conditions improved significantly in 2010 compared with the prior year. We experienced good growth in the majority of our markets with particularly strong demand from customers exposed to emerging regions. As anticipated, there was some easing in the rate of growth during the last quarter of the year as inventory levels began to be replenished. Further detail is provided for each division on pages 26 to 34.

Revenue

Group revenue from continuing operations increased by 23.3 per cent to £571.3 million (2009: £463.5 million) including an adverse effect from foreign exchange movements of approximately £1.3 million. The underlying growth in revenue was 23.5 per cent, reflecting increased demand resulting from the actions taken to re-position the Group and the general market recovery.

Underlying revenue in the Components division increased by 23.2 per cent. The Sensors division delivered growth in revenue of 41.5 per cent as its key European automotive OEM customers benefited from the general recovery and demand for premium passenger cars from Asia. Revenue in the IMS division increased by 20.8 per cent on an underlying basis, notwithstanding the difficulties experienced in sourcing components throughout the year. Good demand from export markets helped the Secure Power division deliver growth of 37.4 per cent. All figures exclude foreign exchange variations. Growth rates including the effects of foreign exchange are detailed on pages 27 to 32.

Operating profit (before exceptional items)

Operating profit from continuing operations significantly improved in the year as a result of the increase in sales, the benefit of cost reduction actions undertaken during 2009 and 2010 and actions taken to re-position the business. These were partially offset by certain increases in the cost base, including investments to support future growth. Operating profit for the year was £25.2 million compared with a profit of £6.4 million in 2009. Operating margins for all divisions, apart from Secure Power, improved in the year. There was a small net benefit of £0.2 million from the impact of foreign exchange variations on the translation of operating profit.

"We experienced good growth in the majority of our markets with particularly strong demand from customers exposed to emerging regions."

Custom sensing solutions utilising infrared reflective technology

We created a unique solution for a major medical manufacturer by developing a custom designed digital optical sensor for an anaesthesia delivery system used in operating theatres. The technology enables the accurate monitoring of anaesthesia fluid, preventing expensive delays in operating procedures. These unique sensors incorporate a custom output protocol designed for the customer's specific application, providing them with a competitive edge in the marketplace.

Creating unique solutions for the medical marketplace

Business review continued
Components

The Components division partners with customers to provide the engineered electronic components they need to bring their products to market. Our global network of application sales engineers work closely with customers' own design centres to develop differentiated solutions, often in circumstances where reliability, performance and the ability to work in harsh environments are key.

The division has a global footprint with facilities in North America, Europe and Asia and a sales presence in all major markets.

To allow us to serve our customers better, unified regional sales structures were implemented in North America and Asia from 1 January 2010, following a similar reorganisation in Europe in 2009. In addition, we appointed our first Vice President of Global Sales to provide co-ordinated leadership and direction.

In the second half of the year an operations leader was appointed with responsibility for all manufacturing facilities worldwide. The new structure is making it easier for the business to support customers across different regions and enabling more efficient utilisation of our manufacturing footprint. Changes are underway to improve the way in which the division identifies and develops new products, with the creation of global business units focused around specific technologies and markets. The fixed resistors business unit was the first to be implemented in October 2010, bringing together a number of previously separate marketing and engineering teams. The transition to the business unit structure will be completed in the first half of 2011.

In 2010 the division strengthened its distribution network, with a special focus on field support to secure new business.

A continued focus on the key account management programme and the implementation of Customer Relationship Management (CRM) tools are helping improve communications with our customers. We are now able to track growth opportunities across geographies as customers move into new regions, often with design activity and manufacturing taking place in different parts of the world.

Good progress was made in the target medical and alternative energy segments with wins including components for life support, medical diagnostic and patient monitoring equipment and intelligent energy meters.

The division's principal competitors include Amphenol, Fairchild, Koa, Smiths Interconnect, Vishay and Yageo.

Market conditions

There was a significant improvement in demand for electronic components across most end markets in 2010, driven by the general recovery in the economic environment and inventory replenishment activities. This resulted in shortages in the supply chain with production of many components unable to keep up with demand. Against this backdrop, the division worked hard to respond quickly to changing customer demands to win new business.

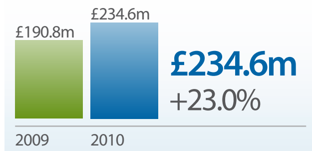
Performance

Underlying revenue in 2010 increased by 23.2 per cent after adjusting for a 0.2 per cent foreign exchange impact. The increase in volumes, coupled with management actions to increase efficiencies, delivered a significantly improved operating profit of £10.7 million and an operating margin of 4.6 per cent. Inventory turns improved by 43 per cent to 6.3 turns (2009: 4.4 turns).

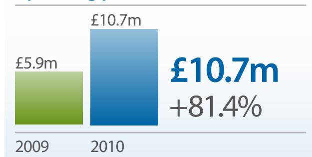
Outlook

The outlook for 2011 is positive albeit with more modest growth expected as customers readjust their inventory levels and order patterns to reflect improving availability and reduced lead times. Recent and ongoing actions are improving the way in which the division works with and supports its customers, develops new products and technologies and manages its factories. We expect the division to deliver further improvements in performance in 2011.

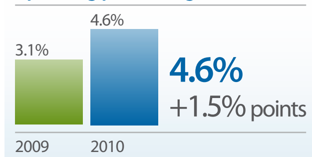
Revenue



Operating profit*

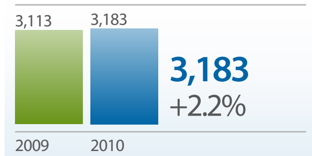


Operating profit margin*



Capital employed

Year end headcount



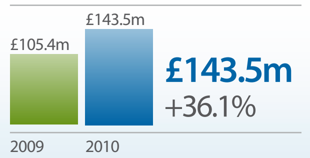
*Before exceptional items

"As we move into 2011 we are focused on completing the transformation of the organisation to deliver a best-in-class global business. This transformation, together with a continued focus to work in partnership with our key customers in growth segments, will deliver further improvements in performance."

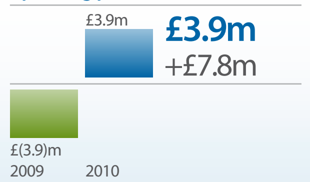
Billal Hammoud
Divisional Chief Executive – Components

Business review continued
Sensors

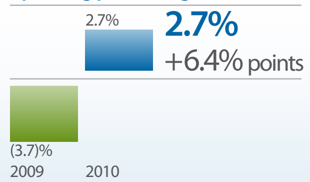
Revenue



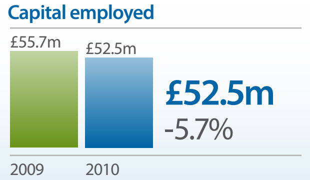
Operating profit*



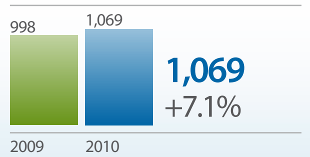
Operating profit margin*



Capital employed



Year end headcount



*Before exceptional items

The Sensors division provides highly engineered sensing solutions targeting critical transportation and industrial applications where conditions demand a high degree of reliability and accuracy, often in extreme temperatures and harsh environments. We continue to be a key technology partner for major automotive OEM customers as they grow in emerging markets, whilst making solid progress in further developing our presence in the broader transportation and selective industrial sensor segments.

Our principal operations are based in Germany, China and India with further sites in the UK and Eastern Europe.

2010 saw our traditional European customers accelerate investments in manufacturing capacity in emerging markets, coupled with continued growth in demand from local OEMs and their suppliers. Reflecting this, the division implemented a global management structure to align itself with key customers. As part of the reorganisation, global leaders were appointed for all major functions. Additionally, investments were made in engineering and manufacturing to support customers in China and India.

This progress was recognised by key customers. For example, the division was granted global preferred supplier status by VW and is working closely with them on new projects worldwide. Good growth was achieved in India and a number of new programmes will commence in China this year to supply sensors, both to domestic customers and European OEMs' local factories. A further significant increase in resources in China is planned for 2011.

Progress was made in applying technologies developed for automotive customers to other markets, with the division winning a number of new programmes in the truck and agricultural vehicle segments. Progress in the industrial market was slower but included new solutions for process automation and industrial engines.

The division's principal competitors include divisions of Bosch, Continental, CTS and Hella.

Market conditions

Automotive end markets recovered strongly following the significant downturn in late 2008 and 2009 with particularly strong demand for passenger cars from emerging markets. More modest growth was seen in Europe and the US where sales of smaller cars were affected by scrappage schemes coming to an end. The truck and off-road markets also recovered well. In addition, we saw a continuation of the trend to increase the number of sensors on each platform.

Performance

The division's key European automotive OEM customers saw especially high levels of demand in the premium passenger car segment from customers in emerging markets. With its global presence and key customer relationships the division was well placed to benefit from this. As a result, underlying revenue, excluding a 5.4 per cent impact of foreign exchange, increased by 41.5 per cent and operating profit before exceptional items increased to £3.9 million.

Outlook

The outlook for 2011 is broadly positive across all markets with good visibility for the first half. The automotive market in Europe and the US is expected to deliver modest growth with higher demand in Asia and other emerging regions, particularly for premium vehicles. The truck, off-road and industrial markets are expected to show continued recovery. The steps being taken to develop the division's capability globally and the focus on providing solutions for critical applications position the business well for the longer term. Further improvements in margins are expected in 2011.

"2010 saw a strong recovery across all markets with a particular emphasis on emerging economies. The investments we are making to increase our engineering and production capabilities, particularly in China, India and Mexico position us well to support our key customers in these growth markets and to further develop our position in the broader transportation and industrial segments."

Pat Murray
Divisional Chief Executive – Sensors

Continuous sensor innovation reduces vehicle emissions

Our unique multi-axis non contact "start-stop" sensor solution has been chosen by a leading European vehicle manufacturer. The gearshift sensor is used to accurately detect when the driver selects a forward or reverse gear whilst the vehicle is at rest. This sensor is an integral part of a fast reacting start-stop system that helps to drive down emissions and increase efficiency.

Sensor excellence helps **transport the world**

Leading in advanced manufacturing

Providing electronic systems for energy recovery solutions

We are partnering with Bowman Power Group, a world leader in advanced exhaust energy recovery techniques, to provide electronic systems for their new 30KW and 60KW energy recovery products. Our world-class supply chain, advanced manufacturing capability and lean philosophies ensure that the products are built to the highest quality standards whilst providing the flexibility to support Bowman's aggressive plans for growth.

Business review continued
IMS

The division draws on its design engineering capabilities, flexibility and world-class facilities to provide high quality electronic manufacturing services to customers in the defence and aerospace, medical and premium industrial sectors. The business has a broad capability from board assembly to full systems integration focused on higher mix/lower volume business.

The division supports its customers from operations in China, USA, UK and Malaysia.

Our strategy is to work with customers who are looking for a partner to build their more complex electronic and electromechanical products and who value our ability to provide support, not only throughout the product lifecycle but also across multiple geographic regions.

During the year, we made very good progress in the target industrial, medical, traction and aerospace segments, with the continued focus on key account management resulting in new wins with existing customers. In addition, initial business was won with ten major new accounts, each having the potential to grow to more than £1 million of revenue per year. Our global presence remains a key differentiator against regional competitors and several cross-site wins were secured with key accounts being supplied from multiple manufacturing locations. We are also beginning to see results from our strategy to transition projects to lower cost manufacturing regions where appropriate, providing us with improved margins whilst at the same time allowing us to offer more competitive pricing.

In the UK, the Aylesbury plant was closed as planned in the first half of the year and the transfer of business to our Rogerstone facility completed.

Although all of the division's operations have made good progress in increasing the proportion of business from strategic customers in our target market segments, further significant opportunity remains.

The division's principal competitors include ACW, CTS, EPIC, La Barge, Neways and Plexus.

Market conditions

Following the market downturn in 2009, customer demand increased in the first quarter of 2010 and remained strong throughout the year in all markets. However, acute component shortages were experienced across the industry and these impacted performance and delayed some customer build programmes. Although the situation eased in the second half of the year, lead times on certain components remained an issue through to the end of the year.

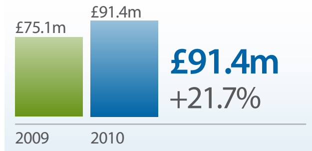
Performance

Underlying revenue grew by 20.8 per cent after adjusting for a foreign exchange benefit of 0.9 per cent. Improved volumes, efficiencies from the consolidation of the UK operations and the progress made in winning new business in target segments delivered an increase in operating profit before exceptional items of £1.9 million to £4.3 million and an improved operating margin of 4.7 per cent.

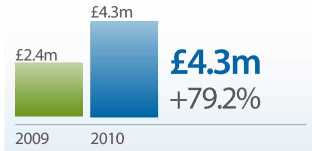
Outlook

We are seeing good levels of customer activity and continued improvements in demand in all regions which, together with a solid order book, provide good visibility for the first half of the year. Component lead times are more stable although they remain longer for certain items when compared to the position in 2007 and 2008. The progress made in winning new business positions the division well for 2011 and beyond.

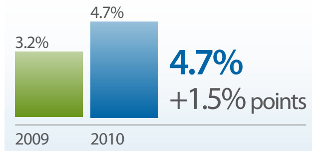
Revenue



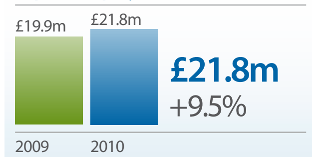
Operating profit*



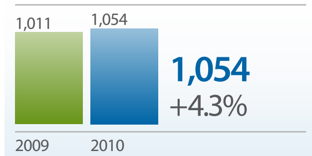
Operating profit margin*



Capital employed



Year end headcount



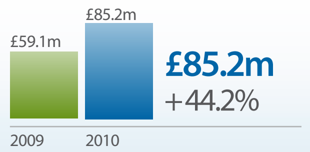
*Before exceptional items

"Following a difficult 2009, we saw a recovery in demand across most geographies and end markets in 2010. We have made good progress against our strategy as evidenced by new wins in the target industrial, medical, traction and aerospace segments. Together with the actions taken to improve margins, particularly in the UK and Malaysia, this progress positions the division well for 2011."

John Molloy
Divisional Chief Executive – IMS

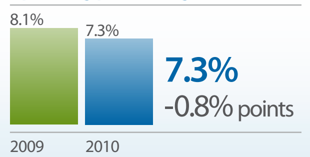
Business review continued
Secure Power

Revenue

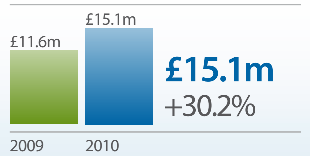


Operating profit

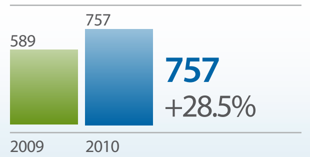
Operating profit margin



Capital employed



Year end headcount



The division provides secure power solutions to customers in the petrochemical, medical, utilities and financial services sectors, who value its reputation for quality, reliability and service. Utilising its engineering capability, the division focuses on providing bespoke turnkey solutions for major one-off projects and differentiated medium to high power generating sets.

The division has two principal operations: Ottomotores in Mexico and Dale Power Solutions in the UK. In addition, we have a facility in Brazil and sales and service offices in Aberdeen and Dubai.

During 2010 we continued to invest in developing sales channels in the UK and Mexico as well as in key overseas markets. Through a combination of dealer and distributor development, and an increase in direct sales focus and resource, we secured new business in Central and South America, as well as in the Middle East and West Africa. The sales and service office in Brazil developed in line with our expectations.

There were fewer large secure power projects in the first half of the year compared with 2009, particularly in the UK, and this impacted margins. However, demand improved in the second half and we won a number of projects in target segments, including solutions to protect water and sewage infrastructure for utilities customers. The investment in the division's service operations in 2009 was reflected in double digit growth in service revenues in the period.

We took further steps to improve the product range introducing new containerised generator sets providing improved reliability and performance in a smaller footprint.

Manufacturing quality from the Mexican plant, an important element in enabling sales in overseas markets, improved during the year, and we introduced the European "CE" quality standard for certain product ranges.

The division's principal competitors include Broadcrown, Caterpillar (including FG Wilson), Chloride and IGSA.

Market conditions

Following the downturn in the second half of 2009, markets in the UK, Mexico and Middle East recovered slowly with stronger competition and longer approval cycles for larger capital projects. In contrast, there was good demand in other markets including Latin America and West Africa.

Performance

The division delivered strong revenue growth of 37.4 per cent excluding a 6.8 per cent foreign exchange benefit. Sales from export markets grew by more than 75.0 per cent and this success was underpinned by growth from traditional markets in the UK and Mexico, albeit at lower levels. Unfavourable product mix, ongoing investment and pricing pressure, principally in the UK, together with adverse transactional exchange rate impacts, resulted in a reduced operating margin overall. However, operating profit improved by £1.4 million, driven by the increase in revenues.

Outlook

In certain developed markets, particularly the US, UK and Europe, growth in demand is expected to continue to be muted, with restrictions on government spending and major capital projects taking longer to be approved. We anticipate that the higher levels of demand experienced in 2010 in other markets will continue and, based on the investments made to broaden sales channels and improve our product range, the division is well positioned to capture further growth in these regions.

"We made great progress in overseas markets in 2010. In addition to delivering revenue growth we invested in developing our sales channels and improving our access to specific markets, particularly in Latin America and West Africa. These actions, together with new products launched during the year, position the division for further growth."

Nigel Brice
Divisional Chief Executive – Secure Power

Powering growth in

Latin America

Supporting the electricity grid in Brazil

Brazil is one of the world's largest consumers of electricity, with more than 80 per cent of its requirement supplied from hydroelectric power. When severe droughts hit in 2010, we provided 48 diesel secure power generating systems, delivering 46MW of continuous power, to support the electricity grid in the Amazon region near Manaus. Our Mexican facility worked closely with the customer to meet very tight timescales.

Business review continued

General Industrial

With operations in the UK, South Africa, India, China, USA and Canada, the division served a range of market sectors during 2010. Applications included magnetics, electrical fusegear and specialist compounds for the cable and pipe markets, as well as fastenings for the industrial and automotive sectors.

In line with the strategy to manage the division for value, six businesses were successfully sold during the year to existing management or trade buyers who were better positioned to invest and develop them over the medium and long term. The net sale proceeds received, which amounted to £21.7 million, were ahead of the Board's expectations and additional deferred consideration of approximately £1.0 million is expected to be received in 2011.

At 31 December, the division comprised AEI Compounds, a UK-based manufacturer of speciality compounds for the cable and pipe markets and Abtest. During 2010 we continued to invest in the development of AEI Compounds, completing the move to a new site and also adding further capacity to meet the increasing demand for low smoke and fume speciality compounds. During early 2011, Abtest became part of the IMS division.

Market conditions

The businesses within the General Industrial division served a wide range of end markets, all of which showed some recovery following the impact of the global recession in 2009.

Performance

The businesses sold during the year contributed revenue of £28.4 million and operating profit of £0.7 million up to the dates of their disposal and are treated as discontinued operations in this report. A net profit on disposal of £7.1 million was recorded and is also shown under discontinued operations.

AEI Compounds delivered revenue of £15.5 million and operating profit of £0.1 million in the period. Operating profit was adversely affected by one-off issues related to the move to the new site and the commissioning of a major new machine. The business is expected to deliver significantly improved performance in 2011.

"I am delighted that we were successful in finding new owners for the businesses sold who are well positioned to support their future development, whilst also realising good value for the Group. With regard to AEI Compounds, as a result of the work undertaken in 2010 by the management team, the business is well positioned to take advantage of increasing levels of demand."

Andrew Dick
Divisional Chief Executive – General Industrial

Business review continued

Financial review

Overview

Revenue from continuing operations increased by 23.3 per cent to £571.3 million in 2010. Operating profit before exceptional items increased from £6.4 million to £25.2 million due to improved volumes and further benefits from the restructuring programme undertaken over the last two years, offset in part by investment expenditure. Profit before tax and exceptional items was £20.7 million, an increase of £19.9 million compared to 2009.

Exceptional items

An exceptional credit of £4.5 million from continuing operations has been recognised during 2010, compared with an exceptional cost of £17.4 million for 2009. This is shown below:

£million	**2010**	2009
Pension curtailment gain from scheme closure	**4.3**	–
Profit on sale of property interest	**1.0**	1.0
Onerous property leases	**(0.8)**	–
Restructuring costs	**–**	(14.6)
Goodwill impairment	**–**	(3.8)
Total	**4.5**	(17.4)

The pension curtailment gain arises from the closure of the UK defined benefit scheme to future accrual, as discussed further below. The Group received £1.0 million in exchange for a reduction in its participation of future profits from the development of the Gravesend site sold in 2005. The residual interest retained by the Group is not expected to result in a material benefit in the medium term. A provision of £0.8 million has been made in respect of two non-trading properties which are subject to onerous long-term leases.

Net finance costs

Net finance costs for 2010 were £4.5 million compared to £5.6 million in 2009. These include £0.5 million (2009: £2.3 million) in respect of the net interest expense arising on pension scheme liabilities due to a reduction in the pension deficit and discount rate and £0.6 million (2009: £nil) in respect of the amortisation of loan arrangement fees associated with the re-financing undertaken in May 2010.

Taxation

The tax charge for the year was £6.7 million (2009: £2.2 million), which represents an effective tax rate of 32.4 per cent on continuing operations excluding exceptional items. The charge arises from the profits generated in overseas countries, in particular in USA, Mexico and China. There is no tax payable in the UK or Germany due to the availability of tax losses.

Earnings per share and dividends

Headline EPS from continuing operations were 9.0 pence (2009: loss per share of 1.2 pence), whilst basic earnings per share from continuing operations were 11.9 pence (2009: loss per share of 12.1 pence).

The Directors recommend a final dividend of 2.0 pence which, when combined with the interim dividend of 0.8 pence, gives a total dividend for the year of 2.8 pence per share (2009: nil). This is in line with the Group's policy to increase dividends progressively whilst maintaining cover of at least two times. The final dividend will be paid on 9 June 2011 to shareholders on the register on 27 May 2011.

Discontinued operations

During the year, the Group disposed of six businesses, all of which were part of the General Industrial division: MMG Canada Limited, Wire Systems Technology (Pty) Limited, MMG Magdev Limited, MMG India Private Limited, WT Henley Limited and BAS Components Limited.

Cash proceeds received during the period from the disposals amounted to £21.7 million with approximately a further £1.0 million expected to be received in 2011. There was a profit of £7.4 million in 2010 (2009: loss of £0.8 million) arising from the discontinued businesses.

These businesses are included within discontinued operations in the consolidated income statement and the 2009 comparatives have been re-presented accordingly.

Pensions

The Group operated one significant defined benefit scheme in the UK and two overseas defined benefit schemes in the USA and Japan. All of these schemes are closed to new members and, in April 2010, the UK scheme was closed to future accrual following extensive consultation, with affected employees being transferred into an enhanced Group defined contribution scheme. A one-off reduction in future liabilities of £4.3 million was recognised in the consolidated income statement as an exceptional credit.

The assets and liabilities of the Group's defined benefit schemes in accordance with IAS 19 are summarised below:

£million	**2010**	2009
Fair value of assets	**333.9**	302.9
Liabilities	**(372.5)**	(343.6)
Deficit – UK scheme	**(38.6)**	(40.7)
Overseas schemes	**(2.6)**	(3.0)
Total Group deficit	**(41.2)**	(43.7)

The results of the triennial valuation of the UK defined benefit scheme as at April 2010 shows a deficit of £39.8 million compared with £59.6 million at April 2007. A revised funding agreement was agreed with the Trustee of the UK scheme in January 2009, fixing deficit contributions until 2016. Under the agreement, a special contribution of £3.2 million was made in 2010, with £3.5 million to be paid in 2011, increasing by £0.2 million each year to £4.5 million in 2016.

The Company and the Trustee agreed that a change to the deficit funding plan was not necessary following the triennial valuation. In addition the Company has agreed to set aside £1.0 million per year for the next three years to be deployed in agreement with the Trustee for reducing the long-term liabilities of the scheme.

Business review continued

Financial review continued

Cash flow, borrowings and facilities

£million (unless otherwise stated)	2010	2009
Underlying operating cash flow	**60.2**	83.9
Working capital improvement	**5.0**	47.2
Capital expenditure (including software)	**(12.2)**	(9.4)
Exceptional restructuring costs	**(5.0)**	(9.6)
Proceeds from disposal of businesses	**21.7**	–
Net debt	**(9.9)**	(56.9)
Stock turns (times)	**5.7**	5.0
Debtor days	**44**	48
Creditor days	**55**	57

Underlying operating cash flow for the year was £60.2 million (2009: £83.9 million). This satisfactory result was due to the increase in profitability and sustained increase in managing working capital following the significant out-performance in 2009. Inventory reduced by £2.5 million accompanied by an improvement in stock turns from 5.0 to 5.7 times. Debtor days improved by four although this was partially offset by a two-day reduction in creditor days. Conversion of operating profit to operating cash flow after capital expenditure was 167 per cent, exceeding the target of 100 per cent conversion.

Exceptional restructuring cash costs of £5.0 million were incurred during the year, together with a £3.2 million special payment to the UK pension fund, resulting in cash generated from operations of £52.0 million (2009: £72.1 million).

Capital expenditure (including software) was £12.2 million compared with depreciation of £21.2 million. Proceeds from the sale of fixed assets amounted to £1.7 million and proceeds from the disposal of businesses amounted to £21.7 million. Net cash flow for the year was £47.0 million (2009: £56.3 million) leading to a significant reduction in net debt to £9.9 million (31 December 2009: £56.9 million).

In May 2010 the Group agreed a new committed facility of £70 million over three years to May 2013 with a club of four banks comprising HSBC, Royal Bank of Scotland, Santander and Fifth Third Bank of the USA. The new facility replaces an existing term loan which had been due for repayment in April 2011. The new facility, together with other bilateral term loans and working capital lines, give the Group facilities of over £110 million and provide a comfortable level of headroom over net debt.

The main financial covenants in the new facility restrict net debt to be below 2.5 times EBITDA before exceptional items in the first year, and then 2.0 times EBITDA before exceptional items in the second and third years. In addition, EBITDA before exceptional items is required to cover net finance charges by 5.25 times in year one, 6.25 times in year two and 6.5 times in year three. The covenants are to be tested quarterly on a rolling 12-month basis and were satisfied comfortably at 31 December 2010:

	Covenant	December 2010
Net debt/EBITDA before exceptional items	<2.5	0.2
EBITDA before exceptional items/net finance charges	>5.25	14.0

The Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities and are satisfied that the Group has adequate resources for the foreseeable future.

Business review continued

Principal risks and uncertainties

The Group is subject to a variety of operational and financial risks which could have a negative impact on its performance and financial position. The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. The principal risks are considered to be:

Principal risks	Description of risk	How we mitigate that risk
Market and customer related	General economic downturn leading to reduction in customer demand and production volumes	Forward-looking indicators are regularly reviewed to identify deteriorating market conditions. The management structure is in place to enable a rapid response to changing circumstances
	Significant erosion of existing customer base as a result of customer relocation or a reduction in end user demand for their products	We review composition of the customer base as part of the annual strategic planning process and establish and monitor plans to diversify the customer base. Our key account management programme ensures major customers are serviced on a global basis. We continue to increase our capabilities to service customers in emerging markets
	Over-dependence on one or more key market sectors or products	Market concentration and new product development are reviewed annually at a business, divisional and Group level as part of the annual strategic planning process. Plans are established to address any issues identified
Manufacturing and operational	Major product liability claims or recall costs from quality failure, particularly in the automotive sector	Comprehensive quality control procedures are backed up by an appropriate level of insurance. Major contracts are reviewed by the Group Legal Counsel
	Failure of business continuity plans with consequential impact on revenue and profit	Robust business continuity plans are in place at each business and are tested periodically
	Inadequate succession planning, combined with a lack of training and development, resulting in a lack of management talent	A talent review process is held twice a year to assess senior management across the Group, identify succession issues and determine training and development needs. In addition, we identify, assess and monitor the development of the Group's management using a web-based performance management tool
	Damage to reputation amongst key stakeholders due to product quality or product delivery issues	Comprehensive quality control procedures are in place and we work continuously to build and maintain relationships with all key stakeholders
	Health and safety; accidents or claims	Best practice is driven by the Group's Health and Safety Committee. Responsibility for health and safety at each site on a day to day basis is devolved to local management. All accidents resulting in three days' or more absence from work are reviewed by the Group Risk Committee. Health and safety processes and procedures are reviewed by the Group's internal audit team as part of their regular on-site audit visits
	Major IT failure, failure to deliver IT projects on time/on budget or late delivery of IT project	The Group's IT Steering Committee meets on a monthly basis to review all major IT projects. The committee is chaired by the Group Chief Executive and members include the Group Finance Director, certain Divisional Chief Executives and the Group's IT Director. In addition the Group only sources hardware and software from reputable manufacturers and suppliers and has appropriate disaster recovery plans in place
Financial	Foreign exchange risk, interest rate risk, credit risk and liquidity risk	Financial risks are managed at a Group level as further described below

Overview
Business review
Governance
Financial statements
Shareholder information

Business review continued

Principal risks and uncertainties continued

Risk management process

In common with other international businesses, the Group is exposed to a number of potential risks which may have a material effect on its reputation and financial or operational performance. These include product liability, credit risk, reliance on customers' commitments and other usual commercial risks. We have a wide portfolio of products and operate in a number of market sectors. It is not possible to identify or anticipate every risk that may affect us, or the materiality of that risk. However, 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 the marketplace in which the exposure arises. The Board has overall responsibility for risk management and internal controls, supported by the Risk Committee and the Audit Committee.

The Risk Committee of the Board holds monthly meetings to review risks and assess and monitor actions to mitigate those risks. This provides a framework for managing risks throughout the Group. During the year the Committee was chaired by the Group Chief Executive and included the Group Finance Director, the Group Legal Counsel, the Group Internal Controls Executive and up to four senior executives from within the Group. Business risk evaluation including the nature, likelihood and materiality of the risks affecting each Group business is assessed by operational management and reviewed periodically. On the basis of these assessments, each month the Risk Committee produces a Group Risk Register and a Group Risk Map which identifies and categorises risks (based on the likelihood of their occurrence and their potential impact on the Group) together with management actions to address and mitigate them. Minutes of the Risk Committee meetings, together with the Group Risk Register and Risk Map, are circulated to the Board and to the Audit Committee.

The Risk Committee monitors the effectiveness of risk management with the assistance of the Group Internal Controls Executive who conducts a series of internal audits in line with an annual plan approved by the Audit Committee. Following each site visit, a report is prepared and presented to local entity and divisional management and to the Chairman of the Audit Committee. A copy is also made available to the external auditors. Further details of the Group's system of internal controls are contained in the Directors' report on corporate governance on pages 50 to 51.

As described in the Corporate governance report, there is an embedded process for monitoring and managing risks through monthly financial and operational reporting procedures. In addition, appropriate levels of cover are maintained under the Group insurance programme in respect of insurable risks.

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 risk, material misstatement or loss.

Operational risks

The Group directly and indirectly serves large automotive OEM customers. This exposes the Group to several risks including fluctuating manufacturing volumes, the potential for significant quality and recall claims and customer default. In the event that one of the larger automotive manufacturers or suppliers defaults or seeks protection from its creditors, the Group may not recover all of the amounts owed to it.

In addition, the Group is exposed to risks of product liability, credit risk, supply chain issues, reliance on customers' commitments and other usual commercial risks in all of its businesses, including those identified as Principal Risks in the table on page 37. The Group has a wide portfolio of products and operates in a number of market sectors.

There are established procedures in place to manage such risks, including production quality control procedures and insurance with reliable insurers, which have been put in place taking into account the risk involved and the marketplace in which the exposure arises. In addition, major contracts are reviewed by the Group Legal Counsel.

The Group has contractual and other arrangements with numerous third parties in support of its business activities. This report does not contain information about any of these third parties as none of the arrangements with them are considered essential to the business of the Group.

Financial risks

As an international business, the major financial risks faced by the Group are foreign exchange risk, interest rate risk, credit risk and liquidity risk and these are regularly considered by the Board.

Foreign exchange risk

The Group is exposed to transactional and translational foreign exchange risk. Transactional foreign exchange risk arises from sales or purchases by a Group company in a currency other than its own functional currency. Translational foreign exchange risk arises on the translation of profits earned in overseas currencies into GBP and the translation of net assets denominated in overseas currencies into GBP, being the Group's functional currency.

In order to mitigate against transactional foreign exchange risk, wherever possible Group companies enter into transactions in their functional currencies with customers and suppliers. When this is not possible, hedging strategies are undertaken through the use of forward currency contracts.

The Group uses forward currency profit hedges to mitigate against translational foreign exchange risk taking into account the level of forecast profits in foreign currencies, natural hedges and the cost of taking out cover.

Financial risks continued

Interest rate risk

The Group's interest rate management policy is to maintain a balance between fixed and floating rates of interest on borrowings and deposits, and to use interest rate derivatives such as caps when appropriate.

Credit risk

Exposure to credit risk arises as a result of transactions in the normal course of business and is applicable to all financial assets. It relates to the exposure of dealing with counter parties who are primarily customers and financial institutions.

Customer credit risk is managed at an operating company level with the oversight of Group management through a monthly Credit Committee chaired by the Group Finance Director. Credit evaluations are performed for all major customers and credit limits are authorised based on internal or external rating criteria and other financial sources. A letter of credit or payment in advance is obtained where a customer's credit quality is not considered strong enough for open credit.

Liquidity

The Group maintains a balance between availability of funding through short-term credit facilities and longer-term debt instruments, and maximising investment returns on its liquid resources. Group management regularly reviews the funding requirements of subsidiaries and the Group, and selects appropriate maturities of cash investments and repayment profile of debt instruments accordingly. The Group maintains back-up liquidity by retaining standby committed credit facilities. Oversight is provided by a Group Treasury Committee chaired by the Group Finance Director.

Directors' review

The Directors have reviewed the effectiveness of risk management and internal control during the year to 31 December 2010 and the period since then to the date of this report and have taken appropriate actions for improvement where necessary.

Business review continued

Corporate responsibility

We are committed to understanding, monitoring and improving our social and environmental impact, and take our corporate responsibility (CR) seriously as an employer, manufacturer, investor and consumer.

Operating in a responsible and sustainable manner is central to the Group's ethics and values.

At a Group level CR is monitored and managed by the Corporate and Social Responsibility Committee which is chaired by the Group Chief Executive. This Committee met four times in 2010. Building on the framework established during 2009, the Group's approach to CR was formalised during 2010 in our Corporate Social Responsibility Policy. This provides a framework within which we expect all of our employees and businesses to operate and complements the Group's cultures and values which are set out on pages 8 and 9.

Working with Business in the Community we have identified four key areas where we will continue to focus our efforts:

Workplace:	improving the workplace environment for our employees
Marketplace:	working with our customers and suppliers to improve corporate responsibility
Environment:	reducing our impact on the environment
Community:	making a sustainable, positive impact in the communities in which we operate

Workplace

In today's competitive market, the enthusiasm, commitment and talent of our people are critical in order to continue building a sustainable and successful business. We believe that, in order to deliver an excellent product and service to our customers, we need to provide a safe, stimulating and supportive work environment for our people.

We aim to attract, develop and retain the most talented people by truly engaging them in the business. In 2010 we launched our first global employee survey, "Your Voice", which achieved a creditable 68 per cent response rate against an industry benchmark of approximately 48 per cent. The feedback was encouraging with many employees identifying strongly with the businesses they work for and being proud to be part of the Group. We have identified a number of specific areas for improvement and these are being addressed in 2011.

TT electronics provides training and development opportunities to assist our employees to acquire new skills and experiences and reach their full potential. For example, in 2010 the Sensors division commenced a training programme for Six Sigma, an internationally recognised lean manufacturing methodology. Four employees achieved green belt certification during the year and the programme is continuing in 2011. In China we have instituted a graduate development scheme providing a structured development programme which benefits both our employees and the Group.

During 2010 we extended our performance management programme to cover over 400 of the Group's managers. Each participant receives detailed feedback from their colleagues and this, together with a review of progress against agreed goals and objectives, is used to assess performance and to set clear objectives and development plans for the following year, closely aligned with the Group's strategic priorities and values.

Our employees' health and safety is a key concern and further details of our actions in this area can be found on page 37.

Marketplace

We are working actively with our supply chains to ensure they commit to our values, especially around fair employment, transparent business practices and good environmental stewardship. As members of the Electronics Industry Citizenship Coalition (EICC) we have adopted the EICC Code of Conduct. In 2011 we plan to use their audit tools to benchmark both our own operations and those of our major suppliers.

Environment

It is the Group's policy that all of its operating companies should gain ISO 14001 accreditation, providing a consistent approach to measuring, managing and improving our environmental management systems.

During 2010 we have continued to work with the Carbon Trust and external partners with the objective of reducing the carbon footprint of our UK operations. The programme is managed by an internal team who are driving energy saving initiatives and monitoring power consumption through a comprehensive system of smart meters. Our largest facilities in the UK have been externally assessed and two of them achieved best in class status.

We are working to define a framework during 2011 to help our global teams to effectively manage their carbon footprint.

Community

In 2010 we successfully launched the Group's community investment programme in the UK, forging a partnership with Help the Hospices, a leading charity supporting hospice care. Each of our UK businesses was twinned with a local hospice, with employees raising funds through events and activities. In the three months leading up to Christmas, they raised £10,000, which was then matched by the Group. This partnership will continue in the UK during 2011 and we will be putting in place a formal programme to encourage all of our businesses and employees worldwide to support their local charities. This will supplement the existing work being done in many regions. For example, our Secure Power operation in Mexico continues to work with a charity supporting indigenous communities in the remote region of la Montana de Guerrero, to create a model of sustainable development. This business has had a long association with the charity and, as part of its 60th anniversary celebrations, donations from customers and suppliers were matched by the business, raising a total of USD 25,000 to assist in funding the construction of hurricane-proof housing for the community of El Aguacate.

Business review continued
Outlook for 2011

Trading conditions improved significantly in 2010 and we experienced good growth in the majority of our markets.

Strong customer demand has continued in 2011, particularly in our Components, Sensors and IMS divisions. The current order book and trading in January and February provide confidence for the first half of the year.

The excellent progress made to re-position the business, and actions continuing in 2011, will further improve Group performance.

Directors and Company Secretary

1. Sean M Watson (62)
Chairman

Chairman of the Nominations and Corporate Governance Committees and member of the Remuneration Committee

Appointed to the Board as an independent non-executive Director in 2007. Became Chairman on 12 May 2010, following the retirement of J W Newman. A solicitor and partner at CMS Cameron McKenna LLP and was a non-executive director of Informa plc from 2000 to 2009.

2. Geraint Anderson (51)
Group Chief Executive

Chairman of the Corporate and Social Responsibility and Risk Committees

Appointed to the Board in 2008. Previously Vice President and General Manager of the Worldwide Service Provider Organisation for Linksys, a division of Cisco Systems, Inc.

3. Shatish D Dasani (49)
Group Finance Director

Member of the Corporate Governance and Risk Committees

Appointed to the Board in 2008. A Chartered Accountant, previously with De La Rue plc, Lafarge SA and Blue Circle Industries plc. Was also previously a non-executive director of Camelot plc.

4. Tim H Roberts (40)
Group Business Development Director

Member of the Corporate Governance Committee

Appointed to the Board on 26 January 2010. Joined TT electronics in January 2008. Previously Strategy and Business Development Director with Spirent Communications plc and formerly a solicitor specialising in corporate finance.

5. David S Crowther (65)
Senior Independent Non-executive Director

Chairman of the Audit Committee and member of the Nominations, Remuneration and Corporate Governance Committees

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

6. Michael J Baunton CBE (60)
Independent Non-executive Director

Member of the Audit and Nominations Committees

Appointed to the Board on 1 September 2010. Currently Chairman of the Board of the Society of Motor Manufacturers and Traders Limited's Industry Forum and advisor to the Board of Stirling Energy Systems Inc. Awarded a CBE in 2004 for services to the automotive and engineering industries in the UK. Previously held senior executive roles with companies including Caterpillar Inc, Perkins Engine Company Limited and Tenneco Inc.

7. John C Shakeshaft (56)
Independent Non-executive Director

Chairman of the Remuneration Committee and member of the Audit, Nominations and Corporate and Social Responsibility Committees

Appointed to the Board in 2007. Currently chairman of Ludgate Environmental Fund Limited and of Valiance Special Opportunities Fund of Funds and Co-Investment Fund; investment director, Corestone, AG and a director of Tele2 AB, Xebec Adsorption, Inc and TEB, NV. Also an external member of the Council of Cambridge University. Previously a corporate financier with ABN AMRO, Lazard and Barings.

8. Wendy J Sharp (45)
Group Company Secretary

Member of the Corporate Governance Committee

1 2 3 4 5 6 7 8

Operating Board

In addition to the executive Directors, the Operating Board consists of:

1. Billal Hammoud (38)
Divisional Chief Executive – Components

Appointed to lead the Components division in January 2010. Previously responsible for Honeywell's magnetic, optical and pressure sensor portfolios serving the global transportation, aerospace, medical and industrial markets. An engineer who holds an MBA, he is fluent in French and Arabic and is Six Sigma Green Belt certified.

2. Pat Murray (51)
Divisional Chief Executive – Sensors

Appointed to lead the Sensors division in 2009. Previously Global Leader of Honeywell's Sensor Division and Regional Vice-President and General Manager for Europe, Middle East and Africa. A chartered engineer and Six Sigma Green Belt certified.

3. Nigel Brice (49)
Divisional Chief Executive – Secure Power

Joined TT electronics plc in 1996 and has held a number of divisional management positions, having had responsibility for the Group's Secure Power businesses since 2003. Previously with The General Electric Company and Saint-Gobain. Member of the Corporate and Social Responsibility Committee.

4. Paul Felbeck (46)
General Counsel

Joined TT electronics plc in 2000 as General Counsel. Formerly International Legal Counsel with MediaOne (now a unit of AT&T). Started his professional career as a solicitor with Freshfields. Member of the Corporate and Social Responsibility and Risk Committees.

5. John Molloy (47)
Divisional Chief Executive – IMS

Joined the Group in 2005 when it acquired Dage (a business which now forms part of the IMS division) where he had been working in senior management roles for six years, primarily in Asia. Previously held senior management positions with electronics companies and EMS providers.

6. John Leighton-Jones (41)
Group Human Resources Director

Joined TT electronics plc in August 2010 from QinetiQ Group plc, where he was Human Resources Director. Previously worked in a variety of senior human resources roles. Originally trained as a tax accountant. Member of the Corporate and Social Responsibility Committee.


1 2 3 4 5 6

Other statutory disclosures

The Directors present their report and the audited financial statements for the year ended 31 December 2010.

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 defence and aerospace, medical, automotive and other industrial electronics markets. Further details of the Group's activities and future plans are set out in the Overview and Business review sections on pages 1 to 41 of this report.

The principal operating subsidiaries are listed on page 105.

Results and dividends

The Group's profit on ordinary activities after taxation was £25.9 million (2009: £19.6 million loss). The audited financial statements of the Group and the Company are set out on pages 63 to 105. Further details of the Group's activities are set out in the Business review on pages 22 to 41.

The Directors are recommending a final dividend of 2.0p per share for the year ended 31 December 2010 (2009: nil) to be paid on 9 June 2011 to shareholders on the register at 27 May 2011 which, together with the interim dividend of 0.8p per share paid on 28 October 2010 (2009: nil), makes a total for the year of 2.8p (2009: nil).

Disposals

In line with the Board's strategic objective to realise value from the businesses within the Group's General Industrial division, the following disposals took place during 2010:

On 16 March 2010, MMG Canada Limited was sold for a net consideration of £0.1 million.

On 14 May 2010, the sale of Wire Systems Technology (Pty) Ltd (which had been announced on 17 February 2010) was completed, the final net consideration being £5.8 million after the post-completion net asset adjustment.

On 30 June 2010 the Group sold two wholly owned subsidiaries, MMG Magdev Limited and MMG India Private Limited, to Delta Magnets Limited, an Indian publicly listed group, for a combined net consideration of £1.5 million after the post-completion net asset adjustment.

On 29 October 2010, the WT Henley business (comprising the entire share capital of WT Henley Limited in the UK and WT Henley Electrical (Suzhou) Co. Ltd. in China) was sold to Sicame SA for a net consideration of £11.2 million after the post-completion net asset adjustment. Completion of the sale of the business in China is conditional on the receipt of certain regulatory approvals from the Chinese authorities.

On 15 December 2010, the BAS Components business (comprising the entire share capital of BAS Components Limited, based in Pembroke in the UK and BAS Components Inc., a sales office based in Ohio, USA) was sold to PSM International Holdings Limited for a net consideration of £4.1 million subject to a post-completion net asset adjustment which has yet to be finalised.

Auditors

On 15 July 2010, it was announced that, following a competitive tender, KPMG Audit Plc were appointed as Auditors in place of Grant Thornton UK LLP. KPMG Audit Plc 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 page 62 and should be read in conjunction with those of the Directors as set out at the end of this report.

Annual General Meeting

The Annual General Meeting of the Company will be held on 19 May 2011 at the offices of Numis Securities Ltd at 11.30 am. The Notice of the Company's Annual General Meeting accompanies this document.

Fixed assets
A professional valuation of land and buildings was carried out during the year and, in the opinion of the Directors, the market value, on an existing use basis, is not materially different from net book value.

Research and development
The Group carries out research and development in order to develop new products and processes and to substantially improve existing products and processes. Further details are given in note 14 to the consolidated financial statements.

Significant agreements relating to change of control
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. The average number of days' credit taken by Group companies at the financial year end was 55 days (2009: 57 days). The average number of days' credit taken by the Company for trade purchases at the financial year end was 64 days (2009: 76 days).

Employment
The Group is committed to the fair and equal treatment of all its employees regardless of gender, race, age, religion, disability or sexual orientation. Where existing employees become disabled, the policy of the Group is to provide continuing employment and training wherever practicable. 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, and intends to seek assurances from suppliers that they too are committed to high standards of employee welfare. Further details on the Group's policies relating to its employees are given on page 40.

Donations
During the year the Group contributed £58,000 (2009: £53,000) for charitable purposes. Employees across the Group regularly fund-raise for charity. Further details on the Group's fundraising activities are given in the Corporate responsibility section of the Business review on page 40. There were no political contributions.

Share capital
The Company's issued share capital comprises a single class of share capital which is divided into Ordinary shares of 25p each. All issued shares are fully paid. The share capital during the year is shown in note 18 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 Group 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, to appoint 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 19 May 2011.

Purchase of own shares
At the Annual General Meeting held on 12 May 2010, the Company was given authority to purchase up to 15,495,279 of its Ordinary shares until the date of its next Annual General Meeting. No purchases were made during the year by the Company. The Directors will be seeking a new authority for the Company to purchase its Ordinary shares at the forthcoming Annual General Meeting.

Further details regarding the authority to allot shares and disapply statutory pre-emption rights and the purchase of own shares are set out in the Notice of the Annual General Meeting which accompanies this document and is available to view on the Company's website.

Other statutory disclosures

Shares held by the Employee Benefit Trust

During the year, the Company established an employee benefit trust ("EBT"), the trustee of which is Sanne Trust Company Limited, part of Sanne Group. As at 31 December 2010, the trustee held 259,515 shares with a nominal value of £64,879 and an aggregate purchase price of £1.46 per share, representing 0.16 per cent of the total issued share capital at that date. This figure was also the maximum number of shares held by the EBT during the year. These shares will be used to satisfy awards made under the TT electronics plc Restricted Share Plan ("RSP") or other employee share schemes. The voting rights in relation to these shares are exercisable by the trustee; however, in accordance with investor protection guidelines the trustee abstains from voting. The executive Directors as employees of the Company are potential beneficiaries of shares held by the EBT. During the year, no shares were disposed of by the EBT by way of the exercise of awards granted under the RSP or any other employee share scheme.

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 Group 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.

Articles of Association

The Company's Articles of Association may only be amended by special resolution approved at a general meeting of the shareholders.

Disclosure of information to auditors

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.

Approved by the Board on 16 March 2011 and signed on its behalf by:

Wendy Sharp
Group Company Secretary

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 2008 Combined Code ("Code") have been complied with throughout the year ended 31 December 2010. No major changes to the Company's procedures have been necessary as a result of the publication of the UK Corporate Governance Code which applies for the year ending 31 December 2011. Details and explanations of the application of the principles of corporate governance are set out below.

The Board

Subject to the Company's Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by 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. The Board has also reserved certain specific matters to itself for decision. These include financial policy and acquisition and disposal policy. The Board appoints its members and those of its principal Committees having received the recommendations of the Nominations Committee and reviews recommendations of the Board Committees and the financial performance and operation of the Group's 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.

During 2010 the Board comprised up to three executive Directors and up to four non-executive Directors. Of the executive Directors, S D Dasani and G Anderson served throughout the year. T H Roberts was appointed on 26 January 2010. Of the non-executive Directors, D S Crowther, J C Shakeshaft and S M Watson served throughout the year. J W Newman retired on 12 May 2010 and M J Baunton was appointed on 1 September 2010. D S Crowther is the senior independent non-executive Director.

During the year there were seven Board meetings on scheduled dates for which full notice was given. Unscheduled supplementary meetings also take place as and when required and, during 2010, six such meetings took place. The Board has had two scheduled and no unscheduled supplementary meetings to date during 2011. Full details of each Director's Board and Committee meeting attendance are given on page 49.

Directors

Directors' biographies including the Committees on which they serve and chair are shown on page 42 together with brief biographical notes.

S M Watson is a partner at CMS Cameron McKenna LLP, one of a number of law firms which advise the Company. Prior to his appointment as a non-executive Director in 2007, the Company, in consultation with Riskmetrics and major shareholders, undertook an assessment to ascertain whether S M Watson met the criteria for independence set out in the Code. It was concluded that he did as the value of the fees charged by CMS Cameron McKenna LLP to the Company, relative to each of their respective turnovers, was not significant enough to be considered material. This continues to be the position. S M Watson was appointed Chairman upon the retirement of J W Newman and, accordingly, at the time of his appointment as Chairman, was considered independent in accordance with the provisions of the Code. The remaining non-executive Directors are all also considered to be independent as defined by the Code.

In accordance with the Company's Articles of Association each Director will offer himself for re-election every three years. At the forthcoming Annual General Meeting S M Watson and J C Shakeshaft retire and, being eligible, offer themselves for re-election. M J Baunton, having been appointed since the previous Annual General Meeting, retires in accordance with the Articles of Association and, being eligible, offers himself 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, not being fewer than three in number. Further details of the activities of the Nominations Committee including details relating to the appointments made to the Board during the year are set out on page 53.

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 except that provisions of the Company's share plans may cause options and awards granted under such schemes to vest on takeover, subject to the satisfaction of any performance conditions. Further details of the executive Directors' service contracts can be found in the Directors' remuneration report on pages 55 to 60. Copies of the executive Directors' service contracts and letters of appointment of the non-executive Directors are available for inspection by any person at the Company's registered office during normal business hours on any weekday (public holidays excepted) and at the Annual General Meeting from 15 minutes before the Annual General Meeting until it ends.

The Group maintains Directors' and Officers' liability insurance. The Directors of the Company also benefit from a qualifying third party indemnity provision in accordance with Section 234 of the Companies Act 2006 and the Company's Articles of Association. The Company has provided a pension scheme indemnity within the meaning of Section 235 of the Companies Act 2006 to directors of associated companies.

Corporate Governance

Directors' interests

The Directors of the Company at 31 December 2010 held interests in the following numbers of the Company's Ordinary shares of 25p each on 1 January 2010, 31 December 2010 and 12 March 2011:

	12 March 2011 Ordinary shares	**31 Dec 2010 Ordinary shares**	1 Jan 2010 (or date of appointment if later) Ordinary shares
S M Watson	140,450	**140,450**	62,950
G Anderson	140,000	**140,000**	140,000
S D Dasani	400,000	**400,000**	350,000
T H Roberts(1)	53,473	**53,473**	33,196
D S Crowther	103,800	**103,800**	65,000
M J Baunton(2)	25,000	**25,000**	nil
J C Shakeshaft	15,479	**15,479**	15,479

(1) Appointed 26 January 2010.

(2) Appointed 1 September 2010.

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 55 to 60.

The Chairman and Group Chief Executive

The division of responsibilities between the Chairman and the Group Chief Executive has been defined, formalised in writing and approved by the Board:

The Chairman maintains responsibility for the leadership and effectiveness of the Board and setting its agenda; ensuring that all Directors receive accurate, timely and clear information on financial, business and corporate matters to enable them to participate effectively in Board decisions; facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors; and ensuring effective communication with shareholders. He is also responsible for ensuring that the performance of individual Directors, the Board as a whole and its Committees are evaluated at least once a year.

The Group Chief Executive is responsible for the operations of the Group. He is responsible for developing Group objectives and strategy having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders and, following presentation to, and approval by, the Board, for the successful implementation and achievement of those strategies and objectives. His other areas of responsibility include managing the Group's risk profile, including its health and safety performance; ensuring that the Group's businesses are managed in line with strategy and approved business plans, and comply with applicable legislation and Group policy; ensuring effective communication with shareholders; and setting Group human resource policies, including management development and succession planning for the senior executive team.

Board procedures

All Directors have access to the advice and services of the Group Company Secretary and are offered training 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.

In accordance with the provisions on conflicts of interest in the Companies Act 2006, the Company has put in place procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflict matters by the Board. In deciding whether to authorise a conflict or potential conflict the Directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation, may be reviewed at any time and, in accordance with best practice, a review of Directors' conflicts of interests is conducted annually.

Board and Committee performance evaluation

In accordance with the Code, the Board conducted an evaluation of its performance and that of its principal Committees.

The Board performance evaluation programme was led by the Chairman and each Director completed a questionnaire which they used to score and comment on a number of performance criteria. These individual responses were then compiled into a single report by the Group Company Secretary and this was circulated to the Board for discussion and detailed review. It was concluded that the Board was performing satisfactorily, noting in particular that:

- Board engagement had improved as a result of increased contact with the Divisional Chief Executives, together with visits to operational facilities;
- the transition to a new Chairman had been successfully effected; and
- the appointment of a new independent non-executive Director with extensive experience in engineering and production worldwide had resulted in a more well balanced Board with a complementary mix of skills and experience.

The evaluation process employed by each of the principal Committees is detailed in their respective reports on pages 53 to 60.

Directors' performance evaluation

In accordance with the Code, the performance of individual Directors was also evaluated.

Each of the non-executive Directors completed a self assessment questionnaire which required them to score their own performance against a number of criteria. The Chairman then held private discussions with each non-executive Director and this provided an opportunity to discuss any issues which had arisen in respect of either their individual assessments or those of the Board and its principal Committees. In respect of the Chairman's performance, the other non-executive Directors together with the Group Chief Executive met privately to discuss this, with the outcomes from these discussions being fed back to the Chairman by the senior independent non-executive Director for discussion and action as appropriate.

At the beginning of the year, each executive Director was set challenging performance objectives, progress against which was then reviewed as the year progressed. All the executive Directors take part in the Group's performance management programme under which they each receive detailed feedback from their colleagues which, together with a review of progress against agreed goals and objectives, is used to assess performance and to set clear objectives and developmental plans for the following year which are closely aligned with the Group's strategic priorities and values. The Group Chief Executive met with each of the other two executive Directors to confidentially discuss and review their performance against objectives whilst the performance evaluation of the Group Chief Executive was conducted by the Chairman.

Board Committees

The Board has established a number of Committees, each with its own delegated authority defined in terms of reference. These terms are reviewed periodically and the Board receives reports and copies of minutes of Committee meetings. The Board appoints the members of all principal Board Committees, having received the recommendations of the Nominations Committee.

Principal Committees

The principal Committees are the Nominations, Audit and Remuneration Committees. Details of the Nominations and Audit Committees, including brief descriptions of their terms of reference (full details of which are available for inspection by shareholders at the Annual General Meeting and on the Group's website) and duties together with a summary of significant events which have taken place during the year can be found on pages 53 and 54, respectively and should be read as part of the Directors' report. Details of the Remuneration Committee and its activities are contained within the Directors' remuneration report on pages 55 to 60.

Board and Committee meeting attendance 2010

The table below shows the number of scheduled meetings held by the Board and its principal Committees and the attendance of each of the Directors at those meetings.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Total meetings held	7	4	4	2
S M Watson	7	n/a	4	2
J W Newman(1)	2	n/a	n/a	1
G Anderson	7	n/a	n/a	n/a
S D Dasani	7	n/a	n/a	n/a
T H Roberts(2)	7	n/a	n/a	n/a
D S Crowther	7	4	4	2
M J Baunton(3)	2	1	n/a	0
J C Shakeshaft	7	4	4	2

(1) Retired 12 May 2010.

(2) Appointed 26 January 2010.

(3) Appointed 1 September 2010. Did not attend one Nominations Committee meeting.

Corporate Governance

Further unscheduled supplementary meetings of the Board and its principal Committees take place as and when required throughout the year. During 2010 there were six such Board meetings, one Audit Committee meeting, four Remuneration Committee meetings and two Nominations Committee meetings. These meetings were all fully attended other than one Board meeting and one Nominations Committee meeting (both held on the same day) which D S Crowther was unable to attend.

Other Committees

Corporate Governance Committee

The Corporate Governance Committee is responsible for monitoring the Group's compliance with good corporate governance. During the year it was chaired by the Chairman and included the Group Finance Director, one independent non-executive Director and the Group Company Secretary. The Group Business Development Director was also appointed to the Committee with effect from 9 December 2010. The Committee's duties are as follows:

- to review regularly the corporate governance procedures of the Company;
- to ensure that the Company's corporate governance procedures are up-to-date and effective and that these are communicated to those employees, officers and/or Directors of the Company or its subsidiaries to whom they are relevant;
- to make recommendations to the Board from time to time on any procedures, or processes, that may need changing, in order to ensure that the Company is compliant with relevant legislation, including but not limited to, the Companies Act 2006;
- to ensure that the Company is compliant with the standards and disclosures required by the Code and the Listing, Prospectus and Disclosure and Transparency Rules of the UK Listing Authority; and
- to receive reports, or any views expressed by shareholders, stakeholders, government or other regulatory bodies and any other interested parties in relation to corporate governance.

The Committee met three times during 2010, during which time it conducted a review of the new UK Corporate Governance Code and the measures required to ensure the Group's compliance for the year ending 31 December 2011. The reports and AGM voting recommendations from various investor bodies were also reviewed and areas for improvement noted in relation to key performance indicators, governance, environmental and social matters, and performance evaluation and succession planning.

Corporate and Social Responsibility Committee

The Corporate and Social Responsibility Committee is chaired by the Group Chief Executive and also comprises one independent non-executive Director, the Group Legal Counsel and up to three senior executives from within the Group. The Committee met four times during 2010 and has had one meeting to date during 2011. The Board regularly receives reports on its activities.

Further information on the activities of the Corporate and Social Responsibility Committee is given in the Corporate responsibility section of the Business review on page 40.

Risk Committee

The Risk Committee assists the Board and the Audit Committee in fulfilling their responsibilities by:

- providing a framework for managing risks throughout the Group; and
- providing an appropriate level of reporting on the status of risk management within the Group.

This is achieved by promoting awareness of risk management, and ensuring that a risk management framework is in place to ensure that risks are identified, quantified, managed, monitored and reported.

During the year the Committee was chaired by the Group Chief Executive and included the Group Finance Director, the Group Legal Counsel, the Group Internal Controls Executive and up to four senior executives from within the Group. A representative from the Company's insurance brokers also regularly attends meetings. The Committee met 12 times during 2010 and has had three meetings to date in 2011.

Further information on the activities of the Risk Committee is given in the Principal risks and uncertainties section of the Business review on pages 37 to 39 and in the Review of principal risks and internal controls below.

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 of 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 prevented or, failing which, are discovered on a timely basis. The systems of control are reviewed regularly and improved where necessary to meet the Group's requirements. Business risk evaluation takes place at operating company and Group level as part of the annual budget preparation. Having identified risks, each operating company then monitors, reviews and updates them regularly.

The Group Chief Executive oversees maintenance of the Group's Register of Principal Risks. Members of staff who are involved in the Group's risk management function report directly to the Group Chief Executive at the monthly Risk Committee meetings. The principal risks of the Group are subject to review by the Risk Committee, Audit Committee and the Board. Further details of the Group's exposure to risk and processes in place to manage the same are set out in the Business review on pages 37 to 39.

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. However, such systems can only provide reasonable and not absolute protection against material mis-statement or loss.

Principal features of the system of internal control

- The Directors meet as a Board at least every other month to monitor financial performance, give direction on significant strategic and financial issues and review the principal risks of the Group.
- The Group Chief Executive chairs a Committee ("Operating Board") consisting of the executive Directors, Divisional Chief Executives and other senior management. The Operating Board meets on a monthly basis and reviews the historical performance and the outlook for the Group as a whole and agrees and implements any actions as necessary. In addition, it is responsible for monitoring and driving delivery of the Group's key priorities and acts as a forum to raise and debate significant operational issues. Biographies of Operating Board members are given on page 43.
- The Group Chief Executive also chairs the Risk Committee. Further details on the remit and activities of the Risk Committee are given above.
- Each operating company within the Group operates within the policies, rules and procedures determined by the Directors and communicated through an internet based Group Policies hub. 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 and seek to ensure that these companies comply with Group accounting policies in the process for preparation of consolidated financial statements. 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.
- 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, Group management 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 Controls Executive, who reports to the Group Finance Director and to the Audit Committee and is also a member of the Risk Committee.
- Risk management systems at key operational facilities (as identified by the Operating Board) are reviewed and assessed by the Group Internal Controls Executive to identify recommended improvements.
- 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 2010 and during the period since then to the date of this report. They have made improvements where necessary.

Financial risk management objectives and policies are set out under Financial risks on pages 37 to 39.

Substantial shareholding notifications

At 12 March 2011 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	%
Legal & General Group plc and Legal & General Investment Management Limited(1)	14,409,544	9.2
J W Newman	10,858,010	7.0
Mondrian Investment Partners Limited	7,912,306	5.1
Tweedy, Browne Company LLC	7,664,336	4.9
Legal & General Group plc(1)	7,549,681	4.8

(1) Legal & General Group plc have a direct interest in TT electronics shares which makes them a substantial shareholder in their own right. Accordingly, under the Disclosure and Transparency Rules, their direct interest is initially notifiable at 3 per cent (and thereafter every time it moves through a percentage point – eg. from 3 per cent to 4 per cent). They also hold shares as a fund manager, via their subsidiary, Legal & General Investment Management Limited, whereby they have an indirect interest. The combined total of their direct and indirect interests is then subject to 5 per cent and 10 per cent disclosure thresholds.

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.

Corporate Governance

Communications with shareholders

G Anderson and S D Dasani meet institutional investors immediately after publication of the annual and interim results, as well as providing the information needed to maintain an orderly market in the Company's shares. S M Watson, as Chairman, and D S Crowther, as senior independent non-executive Director, also undertake consultation on certain matters with major shareholders. Through these Directors the Company maintains a regular dialogue with institutional shareholders and analysts and feedback received is reported to the Board so that all Directors develop an understanding of the views of major shareholders about the Company. 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 offered at the analysts' meetings together with our financial press releases are available on the Group's website.
The Annual General Meeting is used by the Directors to communicate with both institutional and private investors.

Going concern

The Directors have reviewed the budgets for 2011 and the projections for 2012 developed during the 2010 annual strategic planning cycle, which have been adjusted to take account of the current trading environment. There has been a good level of increased activity during 2010 following the downturn experienced in 2009. Sensitivity analyses have been applied to these projections. Further, the Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities, recognising that the main committed facility was re-negotiated during 2010 for a period of three years to May 2013. Based on this, 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.

Approved by the Board on 16 March 2011 and signed on its behalf by:

Wendy Sharp
Group Company Secretary

Nominations Committee

Membership:

S M Watson (Chairman)

D S Crowther

M J Baunton

J C Shakeshaft

The Nominations Committee generally meets at least twice a year to make recommendations to the Board including regarding the appointment of replacement or additional Directors. It comprises the non-executive Directors and the Chairman, who also chairs the Committee. The Committee has an established procedure for recommending Board appointments and for the appointment of members to the Audit and Remuneration Committees. In 2010 the Committee met four times, following which the appointments of T H Roberts as an executive Director, S M Watson as Chairman and M J Baunton as an independent non-executive Director were recommended to the Board.

T H Roberts had joined the Company in 2008, in advance of the retirement of J W Armstrong, who had previously held the post of Corporate Development Director.

S M Watson had been an independent non-executive Director of the Company since 2007. Before nominating him to become Chairman upon the retirement of J W Newman, the Committee weighed the relative merits of appointing an internal candidate conversant with the agreed strategy and its current execution or an external candidate with different skills and experience from existing Board members. The Committee took external advice from the Company's bankers, brokers and remuneration consultants and took soundings of all Board members. Recruitment consultants were engaged to assess S M Watson against a set of professional competences (board leadership; influencing and collaboration; coaching and development; strategic acumen; independence and integrity; and industry and market knowledge) and also against a control group of possible external candidates. S M Watson measured well on both sets of criteria and stronger than the external set on the particular requirements of the Company. Accordingly, the Committee recommended S M Watson's nomination.

In advance of the retirement of J W Newman, the Committee also began the search for an additional independent non-executive Director with experience in industrial manufacturing, engaging the assistance of recruitment consultants. Following interviews with a number of candidates, M J Baunton was identified as being suitable for the role, with extensive experience in engineering and production worldwide, having worked within manufacturing for over 40 years. The Committee therefore recommended M J Baunton's appointment as an independent non-executive Director, serving on the Audit and Nominations Committees.

The Committee carried out an assessment of its performance in 2010 based on a review of its activities during the year against its terms of reference. It was concluded that the Committee is structured appropriately to provide effective support to the Board, but that, following the progress made during 2010, would benefit from placing an increased emphasis on succession planning which will now be formally reviewed twice per year.

The Committee has had no meetings to date during 2011.

Audit Committee

Membership:

D S Crowther (Chairman)

M J Baunton

J C Shakeshaft

During the year, the Audit Committee comprised up to three of the non-executive Directors: D S Crowther (Chairman), J C Shakeshaft and M J Baunton (who was appointed to the Committee on 1 September 2010). D S Crowther has recent and relevant financial knowledge, as required by the Code. 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, decisions of judgement affecting financial reporting, compliance with accounting standards and with the Companies Act 2006;
- the Auditors' assessment of internal audit and other internal controls;
- the scope, performance and effectiveness of the internal audit and other internal control functions;
- risk management (by reference to reports received regularly from the Risk Committee and the head of the internal control/audit function) and any changes to the Register of Principal Risks; and
- the Company's procedures for responding to any allegations made by whistleblowers.

In order to fulfil its duties the Audit Committee regularly receives reports from the Risk Committee and on the findings of the Group Internal Controls Executive who is required to attend the Committee's meetings. The Committee also reviews internal audit plans and recommendations.

During 2010 the Audit Committee met five times. All Committee members attended all the meetings. The Committee met once with Grant Thornton UK LLP without executives of the Company being present. Since the appointment of KPMG Audit Plc as Auditors, the Committee has met with them twice without executives of the Company being present. During the year, the Committee also met twice with the head of the internal control function without executives of the Company being present.

Grant Thornton UK LLP were the Group's auditors and, in May 2010, the Committee agreed that four firms, including Grant Thornton UK LLP be invited to take part in a competitive tender process in order to benchmark the service provided and level of fees charged. A Selection Committee was established which reviewed the proposal documents from each of the audit firms and attended their presentations. The Selection Committee was chaired by the Group Finance Director and also included the Group Financial Controller, the Group Company Secretary, the Group Internal Controls Executive and three Divisional Finance Directors. The Chairman of the Audit Committee attended the presentations given by each of the four firms and gave guidance to the Selection Committee throughout the process. The recommendations of the Selection Committee were then considered by the Audit Committee and the Board, leading to the appointment of KPMG Audit Plc in July 2010.

The independence of the Auditors is usually assessed annually by the Audit Committee. This is achieved by means of a self-assessment of independence which is completed by the Auditors and is then subject to review, analysis and query by the Audit Committee to ensure that suitable policies and procedures are in place to safeguard the Auditors' independence and objectivity. However, given that KPMG Audit Plc had only recently been appointed and their independence had been considered at the time of their appointment, no such assessment of Auditors independence took place during 2010.

The Company has an established policy regarding the provision of non-audit services. This states that non-audit services may be obtained from the most appropriate source having regard to expertise, availability, knowledge and cost. Non-audit services where fees are expected to exceed a pre-determined threshold should be approved, in advance, by the Chairman of the Audit Committee or in his absence by another member of the Audit Committee. There is a restriction so that non-audit services fees will not exceed the audit service fees, paid to the same service provider, for more than two consecutive years unless specifically recommended by the Audit Committee and agreed by the Board. The preference of the Committee is not to engage the Auditors for additional non-assurance services, absent compelling reason (e.g. capability, time, cost) to the contrary.

The Committee carried out a self assessment of its performance during 2010, based on a Committee-specific questionnaire which was circulated to each Committee member for completion. It was concluded that the Committee is structured appropriately to provide effective support to the Board, having been strengthened during the year by the appointment of a new independent non-executive Director. This meant that the issue previously identified with respect to the size of the Committee had now been resolved.

The Committee has had one meeting to date during 2011.

Directors' remuneration report

Membership:

J C Shakeshaft (Chairman)

D S Crowther

S M Watson

This report has been prepared in accordance with the Companies Act 2006, Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the UK Listing Authority. This report also describes how the Board has applied the principles for Directors' remuneration in the 2008 Combined Code ("Code"). A resolution to approve the report will be proposed at the Annual General Meeting on 19 May 2011.

The Auditors are required to give an opinion on whether certain parts have been prepared in accordance with the Accounting Regulations. The report is therefore divided between audited and unaudited information.

Unaudited information

Remuneration Committee

The Remuneration Committee comprises three independent non-executive Directors: D S Crowther, J C Shakeshaft and S M Watson. Until 12 May 2010, the Committee was chaired by D S Crowther. J C Shakeshaft has chaired the Committee since 12 May 2010. S M Watson, who was appointed Chairman of the Group on 12 May 2010, continues to be a member of the Committee as, at the time of his appointment as Chairman, he was considered independent in accordance with the provisions of the Code. The Group Chief Executive, G Anderson, and the Group Human Resources Director, J Leighton-Jones, also attend Committee meetings, as and when required, to provide advice and respond to specific questions.

The role of the Committee is to recommend to the Board policy for and the amount of the remuneration of the Chairman, executive Directors, Divisional Chief Executives and the Group Company Secretary. Such remuneration includes fees, salaries and other benefits, pensions, performance-related pay and share incentive plans, and the terms and conditions of service. In determining these matters the Committee has due regard to the contents of the Code as well as to the UK Listing Authority's Listing Rules and associated guidance. No individual is present during discussions relating to their own remuneration.

In 2010 the Committee met eight times and all members attended each meeting. The Committee carried out an assessment of its performance, constitution and terms of reference based on a questionnaire completed by its members. The Committee was deemed to be performing satisfactorily.

Considering the circumstances of the Group and the demands of its senior management, the Committee also takes into account the position of the Company relative to other companies and is informed of these companies' policies and payments, although comparisons are treated with caution. The Committee appointed Hewitt New Bridge Street ("HNBS"), independent external consultants, to advise on senior executive remuneration matters. HNBS provided no other services to the Company during the year.

Remuneration policy

The Group's remuneration policy is to recruit, retain and motivate talented and well-qualified senior executives to execute the Group's strategy and to align their interests with those of shareholders. A significant proportion of their remuneration is linked to corporate and individual performance. Following a review of existing total remuneration entitlements, the Committee concluded that the current arrangements are appropriate for 2011.

Base salary

The Committee reviews salaries annually and takes account of personal and Company performance and data sourced from companies of a broadly similar size and complexity although external comparisons are considered with caution.

Details of current base salary levels for executive Directors who served during the year are set out below:

	1 January 2011	1 April 2010	1 January 2010 (or date of appointment if later)
G Anderson	**£379,040**	£367,500	£350,000
S D Dasani	**£259,560**	£252,000	£240,000
T H Roberts[1]	**£189,520**	£183,750	£175,000

(1) T H Roberts was appointed to the Board on 26 January 2010.

Following a lifting of the pay freeze which had applied during 2009, base salary levels were increased by 5 per cent with effect from 1 April 2010 having regard to personal performance, Group performance and pay levels within the Group. Following a decision by the Committee to change the salary review date for executive Directors to 1 January each year, base salaries were increased by 3 per cent from 1 January 2011.

Directors' remuneration report

Annual bonus

Executive Directors participate in an annual bonus scheme. The objective of performance-related remuneration is to stimulate improved results of the Group by providing the opportunity for increased remuneration on achieving challenging performance targets.

For 2010, the performance measures were annual targets, comprising a sliding scale of profit (50 per cent of total bonus potential), a sliding scale of cash flow (25 per cent of total bonus potential) and personal objectives linked to implementation of the Group's strategy (25 per cent of total bonus potential). The achievement of strategy-related personal objectives qualify for bonus potential separately from financial targets. This recognises the importance attached to successful implementation of the Group's strategy, notwithstanding possible delayed financial benefits. The bonus arrangements for all senior executives below Board level are based on the same performance criteria to encourage greater team working and include an element of profit of the whole division or group into which they report. The bonus arrangements for 2011 have been reviewed and will continue to be aligned with profitable growth combined with strong operating cash performance, supported by the achievement of key strategic initiatives through the fulfilment of personal objectives.

The maximum potential bonus which can be earned was, and continues to be, 100 per cent of salary. Annual bonus payments are not pensionable.

Details of bonuses awarded to the executive Directors for the year ended 31 December 2010 are set out in the emoluments table on page 58.

Long Term Incentive Plan 2005 ("LTIP")

The LTIP is the primary long-term incentive scheme in the Company. LTIP participants may receive annual awards of up to 100 per cent of base salary. The award is a contingent right to receive shares in the future, subject to continued employment and the achievement of agreed 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 normally vest three years after the date of grant.

The performance targets attached to awards granted in May 2010 require the achievement of earnings per share ("EPS") and total shareholder return ("TSR") targets measured over a three year performance period as follows:

- 50 per cent of an award is based on EPS targets: 25 per cent of the shares subject to this part of the award will vest if the EPS for the year ending 31 December 2012 is equal to 12p, increasing on a straight-line basis to 100 per cent where the EPS is 14p or more; and
- 50 per cent of an award is based on TSR performance targets against companies within the FTSE SmallCap (excluding investment trusts) index: 25 per cent of shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100 per cent vesting at the upper quartile of the comparator group. In addition to the TSR targets, the Committee will consider the Company's underlying financial performance to ensure that vesting percentages under this part of an award are appropriate.

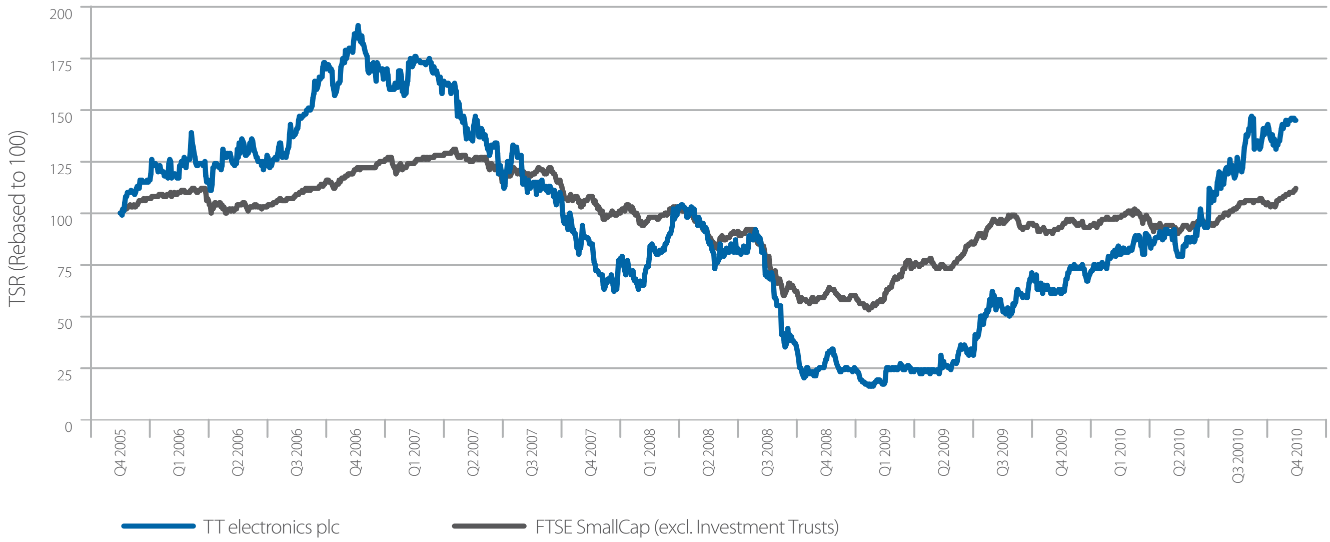
The Committee's current intention is that similar EPS and TSR targets will apply for awards to be granted in 2011, although instead of the absolute EPS pence targets applied to the 2010 awards, percentage growth targets will be operated as per previous awards. The Committee considers that the combined use of EPS and TSR performance conditions provides a good blend of performance measures, with EPS rewarding strong financial performance and TSR rewarding relative stock market performance.

Shareholding guidelines

The Company operates shareholding guidelines for executive Directors for the LTIP. At the time awards vest under the LTIP (or any other executive plan operated in the future), there will be a requirement to retain no fewer than 50 per cent of the shares (net of taxes) until such time as a total personal shareholding equivalent to 100 per cent of prevailing base salary has been reached.

Total shareholder return

The Company's total shareholder return performance for the five years to 31 December 2010 is shown on the graph below compared with the index of the FTSE SmallCap companies (excluding investment trusts). The Company is a constituent of the FTSE SmallCap Index; the Directors consider it an appropriate benchmark for the Company's performance.



Share options

The Company has operated a number of share option schemes in the past. The Committee does not intend to make further grants to executive Directors under these plans.

Sharesave Scheme

The Company adopted a Sharesave Scheme at last year's Annual General Meeting. The executive Directors have all chosen to participate in the plan.

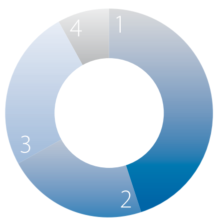
Service contracts

The executive Directors have service contracts reflecting current market practice and an appropriate balance between the interests of the Company and those of the individual Director. These contracts include 12 month non-compete clauses and standard provisions for summary termination and are terminable on 12 months' notice from either side.

Comparison of fixed to variable pay for the Group Chief Executive

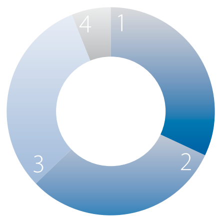
The composition of the remuneration package for the Group Chief Executive changes with performance. The anticipated mix between fixed and variable remuneration is that 45 per cent will be fixed and 47 per cent will be performance-related, excluding pensions and other benefits. For exceptional performance, the mix changes to 32 per cent and 62 per cent respectively. For 2010, the actual fixed element amounted to 38 per cent of the remuneration package. This mix is illustrated in the following charts:

On target performance 2011



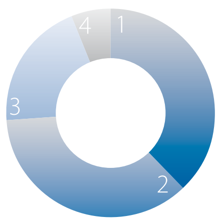
1	Salary	45%
2	Bonus	22%
3	LTIP	25%
4	Benefits	8%

Exceptional performance 2011



1	Salary	32%
2	Bonus	31%
3	LTIP	31%
4	Benefits	6%

Payments 2010



1	Salary	38%
2	Bonus	36%
3	LTIP	20%
4	Benefits	6%

The charts illustrate the balance between fixed and variable pay for the Group Chief Executive. Salary represents the executive's base salary; bonus that can be earned in respect of the year; LTIP awards granted during the year and benefits includes car or allowance, pension and medical benefits.

Target performance payments are: base salary, benefits, bonus payment equal to 50 per cent of base salary, and an intrinsic value of 55 per cent of base salary in respect of the LTIP award granted in the year.

Exceptional performance payments are: base salary, benefits, bonus payment equal to 100 per cent of base salary, and an intrinsic value of 100 per cent of base salary in respect of the LTIP award granted in the year.

Payments 2010 illustrates the proportion of fixed and variable pay for the year: base salary, benefits, bonus payment of 100 per cent of base salary at 1 January 2010 and an intrinsic value of 55 per cent of base salary in respect of the LTIP award granted in the year.

Directors' remuneration report

Non-executive Directors

The remuneration of each of the non-executive Directors is determined by the Chairman and the executive Directors, reflecting the time commitment required, the responsibility of each role and the fees paid in other comparable companies. The remuneration of the Chairman is a matter for the Committee. Current fee levels are as follows:

Chairman	£140,000
Non-executive Director	£38,000
Audit Committee Chair fee	£7,000
Remuneration Committee Chair fee	£7,000

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 2010 and 2009. The amount of each element of the remuneration received and receivable by the Directors in the year including base salary and fees paid during the year, bonus, benefits in kind and other payments is:

	Salary/fees £000	Annual bonus(4) £000	Benefits £000	2010 Total £000	2009 Total £000
Executive Directors					
G Anderson	363	350	22	735	481
S D Dasani	249	240	24	513	335
T H Roberts(1)	167	168	10	345	n/a
Non-executive Directors					
S M Watson(2)	115	–	–	115	32
D S Crowther	45	–	–	45	42
M J Baunton(3)	14	–	–	14	n/a
J C Shakeshaft	43	–	–	43	32
Former Director					
J W Newman(2)	36	–	1	37	178
	1,032	758	57	1,847	1,100

(1) T H Roberts was appointed to the Board on 26 January 2010.

(2) J W Newman retired on 12 May 2010. S M Watson was appointed non-executive Chairman from 12 May 2010 and it was agreed that his fees from that date would be £140,000.

(3) M J Baunton was appointed as a non-executive Director on 1 September 2010.

(4) The amounts are payable under the bonus arrangements in place for 2010 as explained on page 56. 50 per cent of salary was payable against the profit targets, 25 per cent of salary was payable against the cash flow targets and up to 25 per cent of salary was payable against personal objectives.

Benefits in kind during the year comprised company car or allowance benefits, telephone expenses and the provision of private medical insurance. No Director received an expense allowance during the year.

Former Executive Director's pension – defined benefit

One individual who had previously been an executive Director was a member of the Company's defined benefit pension scheme.

	Increase/ (decrease) in accrued pension £000	Annual pension at 31 December 2010 £000	Lump sum received during year £000	Value at 31 December 2010 £000	(Decrease)/ increase in value £000	Value at 31 December 2009 £000
J W Newman	–	226	–	3,956	13	3,943

Notes

(a) J W Newman is in receipt of a pension from the scheme. The change in the cash equivalent value of J W Newman's future benefits reflects the difference in market conditions underlying the assumptions used to value the benefit, less the amounts paid to him during the year.

(b) Pensions in payment accrued between 1 January 1989 and 5 April 2005 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.

(c) In the event of the death of an executive or former executive Director, a pension equal to one-half of the Director's pre-commutation pension will become payable to a surviving spouse.

Executive Directors' pensions – defined contribution

During the year the Company contributed £36,312 for G Anderson, £38,595 for S D Dasani and £17,548 for T H Roberts to the Company's group personal pension arrangement.

Long Term Incentive Plan

As at 31 December 2010, Directors' interests under the LTIP were as follows:

	Date of grant	1 January 2010	Granted during the year	Lapsed	Vested	**31 December 2010**	Market value at 31 December 2010 £	Market price at grant date Pence	Vesting date
J W Newman	16 Jan 07	117,596	–	117,596	–	**–**	–	248.0	16 Jan 10
G Anderson	28 Aug 08	341,463	–	–	–	**341,463**	587,316	102.5	28 Aug 11
	5 May 09	875,000	–	–	–	**875,000**	1,505,000	30.25	5 May 12
	4 May 10	–	330,189	–	–	**330,189**	567,925	106.0	4 May 13
		1,216,463	330,189	–	–	**1,546,652**	2,660,241		
S D Dasani	28 Aug 08	214,634	–	–	–	**214,634**	369,170	102.5	28 Aug 11
	5 May 09	600,000	–	–	–	**600,000**	1,032,000	30.25	5 May 12
	4 May 10	–	226,415	–	–	**226,415**	389,434	106.0	4 May 13
		814,634	226,415	–	–	**1,041,049**	1,790,604		
T H Roberts	24 Apr 08	10,000	–	–	–	**10,000**	17,200	110.0	24 Apr 11
	5 May 09	202,667	–	–	–	**202,667**	348,587	30.25	5 May 12
	4 May 10	–	123,821	–	–	**123,821**	212,972	106.0	4 May 13
		212,667	123,821	–	–	**336,488**	578,759		

Notes

(1) The performance conditions relating to the awards granted in 2007 were not satisfied and therefore the awards did not vest.

(2) For LTIP awards granted in 2008: 25 per cent of the shares subject to an award will vest for EPS growth of 3 per cent compound per annum in excess of RPI, increasing on a straight-line basis to 100 per cent vesting for EPS growth of at least 7 per cent compound per annum in excess of RPI. These performance conditions have not been met.

(3) For LTIP awards granted in 2009: for 50 per cent of an award, 25 per cent of this part will vest for EPS growth of 3 per cent compound per annum in excess of RPI, increasing on a straight-line basis to 100 per cent vesting for EPS growth of at least 7 per cent compound per annum in excess of RPI. For the other 50 per cent, 25 per cent of this part will vest at median performance against the FTSE SmallCap (excluding Investment Trusts) increasing on a straight-line basis to 100 per cent vesting at the upper quartile. In addition to the TSR targets, the Committee will consider the Company's underlying financial performance to ensure that vesting percentages under this part of an award are appropriate.

(4) For LTIP awards granted in 2010: for 50 per cent of an award, 25 per cent of this part will vest if the EPS for the year ending 31 December 2012 is equal to 12 pence, increasing on a straight-line basis to 100 per cent vesting for EPS of 14 pence or more. For the other 50 per cent, 25 per cent of this part of an award will vest at median performance against the FTSE SmallCap (excluding Investment Trusts) increasing on a straight-line basis to 100 per cent vesting at the upper quartile. In addition to the TSR targets, the Committee will consider the Company's underlying financial performance to ensure that vesting percentages under this part of an award are appropriate. These awards equated to 100 per cent of base salary for G Anderson and S D Dasani and 75% for T H Roberts at date of grant based on the market value of 106 pence.

(5) The market value at 31 December 2010 represents the total number of shares award multiplied by 172 pence being the share price on 31 December 2010. The calculation does not take into account the likelihood of vesting.

TT electronics plc Sharesave Scheme

As at 31 December 2010, Directors' interests under the Sharesave Scheme were as follows:

	Date of grant	1 January 2010	Granted during the year	Lapsed	Vested	**31 December 2010**	Potential gain at 31 December 2010 £	Option price Pence	Exercisable between
G Anderson	1 Oct 2010	–	13,552	–	–	**13,552**	7,860	114	1 Nov 15– 30 Apr 16
S D Dasani	1 Oct 2010	–	7,894	–	–	**7,894**	4,579	114	1 Nov 13– 30 Apr 14
T H Roberts	1 Oct 2010	–	7,894	–	–	**7,894**	4,579	114	1 Nov 13– 30 Apr 14

Notes

(1) The potential gain at 31 December 2010 represents the total number of shares under option multiplied by 172 pence being the share price on 31 December 2010 less the option price. The calculation assumes that the executive Director remains employed and completes the contract.

Directors' remuneration report

Directors' share options

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

	1 January 2010	Exercised	Lapsed	**31 December 2010**	Exercise price Pence	Exercise period
J W Newman	248,192	–	248,192(1)	–	166.0	May 2004–May 2011
	128,593	–	128,593(1)	–	165.0	Apr 2005–Apr 2012
	273,180	–	273,180(1)	–	80.0	Mar 2006–Mar 2013
	155,241	155,241(2)	–	–	145.0	May 2007–May 2014
	112,823	–	112,823(2)	–	205.5	Apr 2008–Apr 2015
	918,029	155,241	762,788	–		

Notes

(1) Options granted under the 1996 Executive Share Option Scheme 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.

(2) 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.

During the year options previously granted to J W Newman totalling 762,788 shares lapsed. The performance conditions relating to the share options granted in May 2004 had been satisfied and accordingly J W Newman exercised his option over 155,241 shares at the exercise price of 145 pence during the six-month exercise period following his retirement. These shares were sold on exercise at a price of 155 pence.

The closing middle market prices for an Ordinary share of 25 pence of the Company on 31 December 2010 and 2009 as derived from the Stock Exchange Daily Official List were172 pence and 73.25 pence respectively. During 2010 the middle market price of TT electronics plc Ordinary shares ranged between 73.25 pence and 174.25 pence.

In a volatile year for the global economy, TT electronics performed well. In determining base salary adjustments, annual bonus, and long-term awards, the Committee has recognised the significant achievements of the management team.

Approved by the Board on 16 March 2011 and signed on its behalf by:

John Shakeshaft
Chairman of the Remuneration Committee

Statement of Directors' responsibilities

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law. The Directors have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice (UK GAAP)).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the European Union;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, a Directors' remuneration report and a Directors' report on corporate governance which comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board:

Wendy Sharp
Group Company Secretary

16 March 2011

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

Independent auditor's report to the members of TT electronics plc

We have audited the financial statements of TT electronics plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice (UK GAAP)).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' responsibilities statement set out on page 61, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and to express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the Directors' statement, set out on page 52, in relation to going concern;
- the part of the Directors' report on corporate governance relating to the Company's compliance with the nine provisions of the 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

A J Sykes (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

16 March 2011

Consolidated income statement

For the year ended 31 December 2010

£million (unless otherwise stated)	Note	2010	2009*
Continuing operations			
Revenue	3	**571.3**	463.5
Cost of sales		**(471.2)**	(391.7)
Gross profit		**100.1**	71.8
Distribution costs		**(35.0)**	(30.2)
Administrative expenses		**(37.8)**	(53.8)
Other operating income		**2.4**	1.2
Operating profit/(loss)		**29.7**	(11.0)
Analysed as:			
Operating profit before exceptional items	3a	**25.2**	6.4
Exceptional items	7	**4.5**	(17.4)
Finance income	5	**19.5**	15.8
Finance costs	5	**(24.0)**	(21.4)
Profit/(loss) before taxation		**25.2**	(16.6)
Taxation	8	**(6.7)**	(2.2)
Profit/(loss) from continuing operations	6	**18.5**	(18.8)
Discontinued operations			
Profit from discontinued operations	4	**7.4**	(0.8)
Profit/(loss) for the year		**25.9**	(19.6)
Attributable to:			
Owners of the Company		**25.9**	(19.6)
Non-controlling interests		**–**	–
EPS attributable to owners of the Company – basic and diluted			
From continuing operations (p)	10	**11.9**	(12.1)
From discontinued operations (p)	10	**4.8**	(0.5)
		16.7	(12.6)

*Re-presented for discontinued operations in accordance with IFRS.

Consolidated statement of comprehensive income

for the year ended 31 December 2010

£million	Note	2010	2009
Profit/(loss) for the year		**25.9**	(19.6)
Other comprehensive income/(loss) for the year after tax			
Exchange differences on retranslation of foreign operations		**2.1**	(15.6)
Tax on exchange differences		**0.1**	0.4
(Loss)/gain on hedge of net investment in foreign operations		**(0.9)**	4.5
(Loss)/gain on cash flow hedges taken to equity less amounts taken to income statement		**(0.2)**	2.1
Foreign exchange loss on disposals taken to income statement		**(1.7)**	–
Fair value of minority put option		**(3.9)**	–
Actuarial loss on defined benefit pension schemes	31	**(5.9)**	(28.7)
Tax on actuarial amounts in pension deficit movement		**8.1**	–
Total comprehensive income/(expense) for the year		**23.6**	(56.9)

Total comprehensive income is entirely attributable to owners of the Company.

Consolidated balance sheet

at 31 December 2010

£million	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	12	**93.5**	111.3
Goodwill	13	**66.9**	65.9
Other intangible assets	14	**14.7**	17.6
Deferred tax assets	24	**20.1**	4.9
Total non-current assets		**195.2**	199.7
Current assets			
Inventories	15	**81.4**	83.9
Trade and other receivables	16	**92.7**	85.1
Derivative financial instruments		**0.4**	0.3
Cash and cash equivalents		**44.8**	24.7
Total current assets		**219.3**	194.0
Total assets		**414.5**	393.7
LIABILITIES			
Current liabilities			
Borrowings	22	**5.4**	11.2
Derivative financial instruments		**0.4**	0.5
Trade and other payables	27	**112.9**	88.7
Income taxes payable		**4.5**	1.7
Provisions	26	**3.0**	8.9
Total current liabilities		**126.2**	111.0
Non-current liabilities			
Borrowings	22	**49.3**	70.4
Derivative financial instruments		**4.3**	–
Deferred tax liability	24	**8.9**	5.9
Pensions and other post-employment benefits	31	**41.2**	43.7
Provisions	26	**0.1**	0.2
Other non-current liabilities	27	**5.4**	6.7
Total non-current liabilities		**109.2**	126.9
Total liabilities		**235.4**	237.9
Net assets		**179.1**	155.8
EQUITY			
Share capital	18	**38.8**	38.7
Share premium		**0.4**	0.2
Share options reserve		**1.6**	1.0
Hedging and translation reserve	20	**26.6**	27.2
Retained earnings	21	**109.7**	86.3
Equity attributable to owners of the Company		**177.1**	153.4
Non-controlling interests		**2.0**	2.4
Total equity		**179.1**	155.8

Approved by the Board of Directors on 16 March 2011 and signed on their behalf by:

G Anderson
Director

S D Dasani
Director

Consolidated statement of changes in equity

for the year ended 31 December 2010

£million	Share capital	Share premium	Share options reserve	Hedging reserve	Translation reserve	Retained earnings	Sub-total	Non-controlling interest	Total
At 1 January 2009	38.7	0.2	1.2	(18.1)	53.9	134.6	210.5	2.4	212.9
Loss for the year	–	–	–	–	–	(19.6)	(19.6)	–	(19.6)
Other comprehensive income									
Exchange differences on translation of foreign operations	–	–	–	–	(15.6)	–	(15.6)	–	(15.6)
Tax on exchange differences	–	–	–	–	0.4	–	0.4	–	0.4
Net gain on hedge of net investment in foreign operations	–	–	–	4.5	–	–	4.5	–	4.5
Net gain on cash flow hedges taken to equity less amounts taken to income statement	–	–	–	2.1	–	–	2.1	–	2.1
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	(28.7)	(28.7)	–	(28.7)
Tax on actuarial amounts in pension deficit movement	–	–	–	–	–	–	–	–	–
Total other comprehensive income	–	–	–	6.6	(15.2)	(28.7)	(37.3)	–	(37.3)
Transactions with owners recorded directly in equity									
Share-based payments	–	–	(0.2)	–	–	–	(0.2)	–	(0.2)
At 31 December 2009	38.7	0.2	1.0	(11.5)	38.7	86.3	153.4	2.4	155.8
Profit for the year	–	–	–	–	–	25.9	**25.9**	–	**25.9**
Other comprehensive income									
Exchange differences on translation of foreign operations	–	–	–	–	2.1	–	**2.1**	–	**2.1**
Tax on exchange differences	–	–	–	–	0.1	–	**0.1**	–	**0.1**
Net loss on hedge of net investment in foreign operations	–	–	–	–	(0.9)	–	**(0.9)**	–	**(0.9)**
Net loss on cash flow hedges taken to equity less amounts taken to income statement	–	–	–	(0.2)	–	–	**(0.2)**	–	**(0.2)**
Foreign exchange loss on disposals taken to income statement	–	–	–	–	(1.7)	–	**(1.7)**	–	**(1.7)**
Fair value of minority put option	–	–	–	–	–	(3.5)	**(3.5)**	(0.4)	**(3.9)**
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	(5.9)	**(5.9)**	–	**(5.9)**
Tax on actuarial amounts in pension deficit movement	–	–	–	–	–	8.1	**8.1**	–	**8.1**
Total other comprehensive income	–	–	–	(0.2)	(0.4)	(1.3)	**(1.9)**	(0.4)	**(2.3)**
Transactions with owners recorded directly in equity									
Equity dividends paid by the Company	–	–	–	–	–	(1.2)	**(1.2)**	–	**(1.2)**
Share-based payments	–	–	0.3	–	–	–	**0.3**	–	**0.3**
Deferred tax on share-based payments	–	–	0.7	–	–	–	**0.7**	–	**0.7**
New shares issued	0.1	0.2	–	–	–	–	**0.3**	–	**0.3**
Own shares acquired	–	–	(0.4)	–	–	–	**(0.4)**	–	**(0.4)**
At 31 December 2010	**38.8**	**0.4**	**1.6**	**(11.7)**	**38.3**	**109.7**	**177.1**	**2.0**	**179.1**

Consolidated cash flow statement

for the year ended 31 December 2010

£million	Note	2010	2009
Cash flows from operating activities			
Profit/(loss) for the year		**25.9**	(19.6)
Taxation		**7.1**	2.4
Net finance costs		**4.5**	5.7
Exceptional items		**(4.5)**	18.0
Profit on disposal of discontinued operations		**(7.1)**	–
Operating profit from discontinued operations before exceptional items		**(0.7)**	(0.1)
Operating profit from continuing operations before exceptional items		**25.2**	6.4
Adjustments for:			
Depreciation of property, plant and equipment	12	**21.2**	24.1
Amortisation of intangible assets	14	**9.6**	11.8
Other items		**(0.8)**	(5.6)
(Increase)/decrease in inventories		**(6.0)**	31.1
(Increase)/decrease in receivables		**(15.2)**	22.2
Increase/(decrease) in payables		**26.2**	(6.1)
Operating cash flow before exceptional payments		**60.2**	83.9
Special payments to pension funds		**(3.2)**	(2.2)
Exceptional restructuring costs		**(5.0)**	(9.6)
Net cash generated from operations		**52.0**	72.1
Income taxes paid		**(7.0)**	(5.3)
Net cash flow from operating activities		**45.0**	66.8
Cash flows from investing activities			
Interest received		**0.2**	0.2
Purchase of property, plant and equipment	12	**(10.8)**	(9.4)
Proceeds from sale of property, plant and equipment and grants received		**1.7**	5.7
Development expenditure	14	**(6.0)**	(6.9)
Purchase of other intangibles	14	**(1.4)**	–
Acquisition of subsidiary (net of cash acquired)		**–**	(1.0)
Disposal of subsidiaries (net of cash in subsidiaries at date of disposal)		**21.7**	–
Net cash flow from/(used) in investing activities		**5.4**	(11.4)
Cash flows from financing activities			
Issue of share capital	18	**0.3**	–
Interest paid		**(2.9)**	(4.0)
Repayment of borrowings		**(86.5)**	(17.6)
Proceeds from borrowings (net of arrangement costs of £2.0 million)		**59.1**	2.9
Finance leases		**(0.1)**	(0.1)
Dividends paid by the Company		**(1.2)**	–
Net cash flow used in financing activities		**(31.3)**	(18.8)
Net increase in cash and cash equivalents		**19.1**	36.6
Cash and cash equivalents at beginning of year	23	**24.5**	(12.2)
Exchange differences	23	**0.6**	0.1
Cash and cash equivalents at end of year	23	**44.2**	24.5
Cash and cash equivalents comprise			
Cash at bank and in hand	23	**44.8**	24.7
Bank overdrafts	17	**(0.6)**	(0.2)
		44.2	24.5

The consolidated cash flow statement includes cash flows from both continuing and discontinued operations.

Notes to the consolidated financial statements

1 Basis of preparation

a) Basis of accounting
The consolidated financial statements have been prepared on a historical cost basis modified by the revaluation of financial assets and derivatives held at fair value and by the revaluation of certain property, plant and equipment at the transition date to International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union, and in accordance with the provisions of the Companies Act 2006.

The financial statements set out on pages 63 to 105 have been prepared using consistent accounting policies, except for the adoption of new accounting standards and interpretations noted below. Adoption of these standards and interpretations did not have a significant impact on the financial position and performance of the Group.

- IFRS 2 "Share-based payment – Group cash settled share-based payment transactions". The Group adopted the amendment to IFRS 2 on 1 January 2010. The amendment to IFRS 2 has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment supersedes IFRIC 8 and IFRIC 11;
- IFRS 3 "Business combinations (Revised)". The Group adopted IFRS 3 (Revised) on 1 January 2010. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results;
- IAS 39 "Financial instruments: recognition and measurement – eligible hedged items (Amendment)." The Group adopted the amendment to IAS 39 on 1 January 2010. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations; and
- IFRIC 17 "Distribution of non-cash assets to owners". The Group adopted IFRIC 17 on 1 January 2010. The IFRIC provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

b) Basis of consolidation
The consolidated financial statements set out the Group's financial position as at 31 December 2010 and the Group's financial performance for the year ended 31 December 2010.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

c) Discontinued operations
In accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", comparatives for prior years have been re-presented for businesses treated as discontinued.

d) Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 14 to 41. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance review on pages 35 to 36. In addition, note 17 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term partnerships with a number of key customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources and financial headroom to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1 Basis of preparation (continued)

e) New standards and interpretations not yet adopted
In preparing the consolidated financial statements, the Group has not applied the following relevant standards and interpretations that have been issued but are not yet effective:

- IAS 24 "Related Party Disclosures (Amendment)". The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application;
- IFRS 9 "Financial Instruments: Classification and Measurement." IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013 and could change the Group's classification and measurement of financial assets; and
- "Improvements to IFRSs" (issued in May 2010). The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

The Group does not expect there to be a significant impact on its financial position or performance arising from adoption of these accounting standards.

f) Change in accounting policies
There have been no changes to accounting policies during the year, except for the adoption of new standards and interpretations as disclosed in note 1(a).

g) Significant accounting judgements and estimates

Judgements
Determining many of the amounts included in the consolidated financial statements involves the use of judgements. These judgements are based on management's best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. Other than the key sources of estimation uncertainty shown below, the Directors believe that there were no material transactions or events during the year which required critical judgements in applying the Group's accounting policies.

Estimation uncertainty
The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. In particular, information about significant areas of estimation uncertainty made by the Directors in preparing the consolidated financial statements is shown below:

- Note 14 – Intangible assets. The recoverability of capitalised development costs is dependent on assessments of the future commercial viability of the relevant products and processes;
- Note 13 – Impairment of goodwill. The carrying amount of goodwill has been tested for impairment by estimating the value in use of the cash-generating units to which it has been allocated. Note 13 outlines the significant assumptions made in performing the impairment tests;
- Note 31 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions, including future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate. The pension deficit has been calculated using the assumptions set out in note 31;
- Note 26 – Provisions. The Group makes appropriate provision on a consistent basis for risks of product liability, litigation, credit risk and other normal trading exposures with estimates being made regarding the timing of future payments; and
- Note 24 – Deferred tax. The recognition of deferred tax assets is dependent on assessments of future taxable income in the relevant countries concerned.

2 Summary of significant accounting policies
The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied across the Group.

a) 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. Goodwill is not amortised, and any impairment losses are not subsequently reversed. 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.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

b) 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.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. The carrying values of intangible assets are tested for impairment whenever there is an indication that they may be impaired.

Acquired computer software licences for use within the Group are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the implementation of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Capitalised software development expenditure is stated at cost less accumulated amortisation.

The amortisation rates for intangible assets are:

Acquired patents and licences	up to 10 years
Product development costs	up to 3 years
Customer relationships	3 to 8 years
Software	3 to 5 years

Amortisation is on a straight-line basis.

c) Foreign currency translation
The functional currency for each entity in the Group is determined with reference to the currency of the primary economic environment in which it operates. Transactions in currencies other than the functional currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange gains and losses on settlement of foreign currency transactions translated at the rate prevailing at the date of the transactions, or the translation of monetary assets and liabilities at period end exchange rates, are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction.

On consolidation, income statements of subsidiaries are translated into sterling, at average rates of exchange. Balance sheet items are translated into sterling at period end exchange rates. Exchange differences on the retranslation are taken to equity. Exchange differences on foreign currency borrowings financing those net investments are also dealt with in equity and are reported in the statement of comprehensive income. All other exchange differences are charged or credited to the income statement in the year in which they arise. 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.

d) Property, plant and equipment

Initial measurement
Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Depreciation
The cost of each item of property, plant and equipment is depreciated over its useful life. Depreciation is charged to the income statement so as to write-off the cost less estimated residual value on a straight-line basis over the estimated useful life of the asset. Depreciation commences on the date the assets are used within the business and the asset carrying values are reviewed for impairment when there is an indication that they may be impaired. Freehold land is not depreciated.

The expected useful lives of assets are as follows

Freehold buildings	2%
Leasehold buildings	2% (or over the period of the lease if less than 50 years)
Plant, equipment and vehicles	10% to $33^1/_3$%

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for their intended use are capitalised as part of the cost of the respective asset.

2 Summary of significant accounting policies (continued)

e) Investment property
Property held to earn rental income rather than for the purpose of the Group's principal activities is classified as investment property. Investment property is recorded at cost less accumulated depreciation and any recognised impairment loss. The depreciation policy is consistent with those described for other Group properties. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

f) Leases
Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased items, are capitalised at the commencement of the lease. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. Lease payments are apportioned between the finance charge and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. All other leases are treated as operating leases and the cost is expensed to the income statement as incurred.

g) 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.

h) 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.

i) Trade and other receivables
Trade receivables are carried at original invoice price (which is the fair value of the consideration receivable) less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the original carrying amount and the recoverable amount, being the present value of expected cash flows receivable. The amount of the provision is recognised in the income statement.

j) Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, short-term deposits held on call or with maturities of less than three months at inception and highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk of changes in value, and bank overdrafts.

k) 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. No provision is made for deferred tax which would become payable on the distribution of retained profits by overseas subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. 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. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised or that they will reverse. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

l) Borrowings
Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

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

n) Employee benefits

Defined benefit plans
The Group operates defined benefit post-retirement benefit schemes and defined contribution pension schemes.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

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 in the statement of comprehensive income.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised in the income statement in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined by an external consultant and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

o) Own shares

Own equity instruments which are re-acquired (own shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration paid to acquire such equity instruments is recognised within equity.

p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

q) Revenue

Revenue is measured at the fair value of the right to consideration, usually the invoiced value, for the provision of goods and services to external customers excluding value added tax and other sales related taxes and is recognised when the significant risks and rewards of ownership have transferred to the customer. In most cases this coincides with the transfer of legal title of the goods. Revenue for services is recognised as the services are rendered.

r) Finance income

Finance income comprises interest income on funds invested, foreign exchange gains and the expected return on pension scheme assets. Interest income is recognised as it accrues.

s) Finance costs

Finance costs comprise interest expense on borrowings which are not capitalised under the borrowing costs policy, the unwinding of interest cost on employee benefits and provisions and foreign exchange losses.

t) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

2 Summary of significant accounting policies (continued)

u) Dividends

Dividends are recognised as a liability in the period in which they are approved by shareholders. Dividends receivable are recognised when the Group's right to receive payment is established.

v) Discontinued operations

The Group reports a business as a discontinued operation when it has been disposed of in a period, or its future sale is considered to be highly probable at the balance sheet date, and results in the cessation of a major line of business or geographical area of operation.

w) Financial instruments

Recognition

The Group recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Measurement

When financial assets and liabilities are initially recognised, they are measured at fair value being the consideration given or received plus directly attributable transaction costs.

In determining estimated fair value, investments are valued at quoted bid prices on the trade date. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded.

Loans and receivables are loans and receivables created by the Group providing money to a debtor. Loans and receivables comprise loans and advances other than purchased loans. Originated loans and receivables are initially recognised in accordance with the policy stated above and subsequently re-measured at amortised cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge risks associated with foreign exchange fluctuations. These are designated as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. Originated loans and receivables are derecognised on the date they are transferred by the Group.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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3 Segmental reporting

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

- Components – specialist resistive components and microcircuits, connectors and interconnection systems;
- Sensors – electronic accelerator pedals, engine and wheel speed, temperature and pressure sensors and chassis height sensors;
- Integrated Manufacturing Services – the provision of global electronics manufacturing capability with logistics, interconnect and integrated solutions;
- Secure Power – standby generation and uninterruptible power systems manufacture and service; and
- General Industrial – manufacturing operations whose applications primarily relate to compounding.

The accounting policies of the reportable segments are the same as the Group's accounting policies as shown in note 2.

The key performance measure of the operating segments is operating profit before exceptional items. The Group reports non-trading 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. Segment operating profit represents the profit earned by each segment after allocation of central head office administration costs.

Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

Goodwill is allocated to the individual cash generating units which are smaller than the segment which they are part of.

a) Income statement information – continuing operations

£million	Components	Sensors	Integrated Manufacturing Services	Secure Power	General Industrial	Total
						2010
Sales to external customers	**234.6**	**143.5**	**91.4**	**85.2**	**16.6**	**571.3**
Segment operating profit before exceptional items	**10.7**	**3.9**	**4.3**	**6.2**	**0.1**	**25.2**
Exceptional items						**4.5**
Operating profit						**29.7**
Net finance costs						**(4.5)**
Profit before taxation						**25.2**

£million	Components	Sensors	Integrated Manufacturing Services	Secure Power	General Industrial	Total
						2009 (re-presented)
Sales to external customers	190.8	105.4	75.1	59.1	33.1	463.5
Segment operating profit/(loss) before exceptional items	5.9	(3.9)	2.4	4.8	(2.8)	6.4
Exceptional items						(17.4)
Operating loss						(11.0)
Net finance costs						(5.6)
Loss before taxation						(16.6)

There are no significant sales between sectors.

The results for General Industrial in 2009 include those relating to AB Automotive which was closed down in that year.

3 Segmental reporting (continued)

b) Segment assets

£million	Assets 2010	Assets 2009	Liabilities 2010	Liabilities 2009
Components	**175.9**	181.1	**47.6**	32.3
Sensors	**79.7**	80.9	**27.2**	25.2
Integrated Manufacturing Services	**46.1**	39.1	**24.3**	19.2
Secure Power	**38.0**	28.8	**22.9**	17.2
General Industrial	**9.9**	34.2	**4.0**	11.0
Segment assets and liabilities	**349.6**	364.1	**126.0**	104.9
Pensions and other post-employment benefits	**–**	–	**41.2**	43.7
Unallocated assets and liabilities	**64.9**	29.6	**68.2**	89.3
Total assets/liabilities	**414.5**	393.7	**235.4**	237.9

£million	Capital expenditure 2010	Capital expenditure 2009	Depreciation and amortisation 2010	Depreciation and amortisation 2009 (re-presented)
Components	**5.9**	3.9	**12.3**	13.9
Sensors	**9.6**	9.1	**14.6**	16.5
Integrated Manufacturing Services	**1.0**	0.5	**1.8**	2.2
Secure Power	**0.6**	0.4	**0.6**	0.6
General Industrial	**1.1**	1.9	**0.7**	1.2
Total continuing operations	**18.2**	15.8	**30.0**	34.4
Discontinued operations	**–**	0.5	**0.8**	1.5
Total	**18.2**	16.3	**30.8**	35.9

c) Geographic information

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

£million	2010	2009 (re-presented)
United Kingdom	**99.8**	81.3
Rest of Europe	**226.4**	192.4
North America	**102.6**	85.3
Central and South America	**58.5**	47.3
Asia	**72.3**	47.7
Rest of the World	**11.7**	9.5
Total continuing operations	**571.3**	463.5
Discontinued operations	**28.4**	36.1
Total revenue	**599.7**	499.6

No individual customer accounts for more than 10% of Group revenue. Revenue from services is less than 5% of Group revenues. All other revenue is from the sale of goods.

Notes to the consolidated financial statements

3 Segmental reporting (continued)

Non-current assets

The carrying amount of non current assets, excluding deferred tax assets and financial assets, analysed by the geographical area in which the assets are located is shown below:

£million	2010	2009
United Kingdom	**33.5**	40.1
Rest of Europe	**49.9**	58.7
North America	**76.1**	78.1
Central and South America	**6.6**	6.4
Asia	**9.0**	10.6
Rest of the World	**–**	0.9
	175.1	194.8

4 Discontinued operations

During the year, the Group disposed of the following six businesses, all of which were part of the General Industrial division:

- MMG Canada Limited;
- Wire Systems Technology (Pty) Limited;
- MMG Magdev Limited;
- MMG India (Private) Limited;
- WT Henley Limited; and
- BAS Components Limited.

There were no discontinued operations during the year ended 31 December 2009. The results from discontinued operations for the year shown in the consolidated income statement are shown below:

£million	2010	2009
Revenue	**28.4**	36.1
Cost of sales	**(21.5)**	(28.7)
Gross profit	**6.9**	7.4
Distribution costs	**(2.4)**	(3.5)
Administrative expenses	**(3.8)**	(3.8)
Exceptional items	**–**	(0.6)
Operating profit/(loss)	**0.7**	(0.5)
Net finance costs	**–**	(0.1)
Profit/(loss) before taxation	**0.7**	(0.6)
Taxation	**(0.4)**	(0.2)
Profit/(loss) after taxation	**0.3**	(0.8)
Profit on disposal of discontinued operations	**7.1**	–
Profit/(loss) from discontinued operations	**7.4**	(0.8)

The profit on disposal in 2010 of £7.1 million is analysed below:

£million	2010
Gross cash received	**23.5**
Less: legal and professional costs	**(1.5)**
Less: cash disposed of at completion	**(0.3)**
Net proceeds per consolidated cash flow statement	**21.7**
Deferred consideration receivable	**1.0**
Less: net assets at completion	**(15.6)**
	7.1

4 Discontinued operations (continued)

The net cash flows from discontinued operations included within the consolidated cash flow statement are shown below:

£million	2010	2009
Operating activities	0.2	4.2
Investing activities	0.4	(0.2)
Financing activities	–	(0.3)
Net cash flow	**0.6**	3.7

5 Finance income and finance costs

£million	2010	2009 (re-presented)
Interest income	0.2	0.2
Expected return on pension scheme assets	19.3	15.6
Finance income	**19.5**	15.8
Interest expense	(3.2)	(3.5)
Interest on employee obligations	(19.8)	(17.9)
Amortisation of arrangement fees	(0.6)	–
Unwinding of discount factor on minority put option	(0.4)	–
Finance costs	**(24.0)**	(21.4)
Finance costs – net	**(4.5)**	(5.6)

6 Profit/(loss) for the year

Profit/(loss) from continuing operations for the year is stated after charging/(crediting):

£million	2010	2009 (re-presented)
Depreciation of property, plant and equipment	20.4	22.6
Amortisation of intangible assets	9.6	11.8
Net foreign exchange (gains)/losses	–	0.7
Cost of inventories recognised as an expense	467.0	388.2
Staff costs (see note 11)	143.0	129.1
Remuneration of Group Auditors		
– Company and consolidation statutory audits	0.1	0.1
– statutory audit of subsidiaries	0.5	0.8
– tax services	0.2	0.2
Remuneration of other Auditors		
– statutory audit of subsidiaries	–	0.1
– tax services	–	0.1
Government grants credited	(1.0)	(1.1)
Share-based payment	0.3	(0.2)

Auditors' remuneration for 2010 in the above table relates to KPMG Audit plc, whereas the comparative information for 2009 relates to Grant Thornton LLP.

Notes to the consolidated financial statements

7 Exceptional items

£million	2010	2009 (re-presented)
Continuing operations		
Restructuring costs:		
AB Automotive – closure costs	–	4.1
AB Automotive – property profit	–	(0.9)
Sensors – European restructuring	–	7.4
Sensors – Romford closure	–	0.4
IMS – UK consolidation including Aylesbury closure	–	1.2
Components – BI Technologies closure of manufacturing	–	1.0
General Industrial restructuring	–	0.8
Other restructuring	–	0.6
Profit on sale of properties	**(1.0)**	(1.0)
Onerous property leases	**0.8**	–
Impairment of goodwill	–	3.8
Pensions curtailment gain from scheme closure	**(4.3)**	–
Total continuing operations	**(4.5)**	17.4
Discontinued operations	–	0.6
Total	**(4.5)**	18.0

a) Year ended 31 December 2010

For the year ended 31 December 2010, the exceptional items relate to:

- a curtailment gain of £4.3 million arising from the closure of the UK defined benefit scheme to future accrual;
- profit of £1.0 million arising from the sale of property interests; and
- a provision of £0.8 million which has been recognised in respect of two vacant properties subject to onerous long-term leases.

b) Year ended 31 December 2009

For the year ended 31December 2009, the exceptional items relate to:

- the closure costs of the climate control production sites in the UK, North America, Brazil and China following the decision to exit from the business;
- the closure of sensors production in the UK which has transferred to China and India;
- the cost of significant reductions in headcount in Germany in the Sensors division;
- phase 1 of the consolidation of the IMS businesses in the UK into one business; and
- goodwill impairment within Optek Technology Inc.

The Group reports non-trading 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.

8 Taxation

a) Analysis of the tax charge/(credit) for the year

£million	2010	2009 (re-presented)
Current tax		
Current income tax charge	**11.3**	3.5
Adjustments in respect of current income tax of previous year	**(0.1)**	0.4
Total current tax charge	**11.2**	3.9
Deferred tax		
Relating to origination and reversal of temporary differences	**(4.5)**	(1.7)
Total tax charge in the income statement – continuing operations	**6.7**	2.2

UK tax is calculated at 28% (2009: 28%) of taxable profits. Overseas tax is calculated at the tax rates prevailing in the relevant countries. The Group's effective tax rate for the year from continuing operations was 26.6% (32.4% excluding exceptional items).

b) Reconciliation of the total tax charge/(credit) for the year

£million	2010	2009 (re-presented)
Profit/(loss) before tax from continuing operations	**25.2**	(16.6)
Profit before tax multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%)	**7.1**	(4.6)
Effects of:		
Items not deductible for tax purposes or income not taxable	**1.1**	0.5
Adjustment to current tax in respect of prior periods	**(0.1)**	0.4
Recognition and utilisation of previously unrecognised tax losses	**(2.1)**	(1.0)
Current year tax losses and attributes not recognised	**0.3**	7.9
Overseas tax rate differences	**0.4**	(0.1)
Other	**–**	(0.9)
Total tax charge reported in the income statement – continuing operations	**6.7**	2.2

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will be reduced from 28 per cent to 24 per cent over a period of four years from 2011. The first reduction in the rate from 28 per cent to 27 per cent was substantively enacted on 21 July 2010 and will be effective from 1 April 2011. As this rate change was substantively enacted prior to the year end, the closing deferred tax assets and liabilities have been recalculated. The resulting charges or credits have been recognised in the income statement except to the extent that they relate to items previously charged or credited to other comprehensive income or equity.

9 Dividends

	2010 pence per share	2010 £million	2009 pence per share	2009 £million
Final dividend for prior year	**–**	**–**	–	–
Interim dividend for current year	**0.8**	**1.2**	–	–
	0.8	**1.2**	–	–

The Directors recommend a final dividend of 2.0p which when combined with the interim dividend of 0.8p gives a total dividend for the year of 2.8p per share. The Group's dividend policy is to increase dividends progressively whilst maintaining cover of at least two times underlying earnings per share. The final dividend will be paid on 9 June 2011 to shareholders on the register on 27 May 2011.

Notes to the consolidated financial statements

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of shares in issue during the period. The weighted average number of shares in issue is 155.0 million (2009: 155.0 million).

Headline earnings per share is based on profit for the year from continuing operations adjusted for exceptional items and their associated tax effect.

Pence	2010	2009 (re-presented)
Basic and diluted earnings/(loss) per share:		
Continuing operations	**11.9**	(12.1)
Discontinued operations	**4.8**	(0.5)
Total	**16.7**	(12.6)

Headline earnings per share

The numbers used in calculating headline, basic and diluted earnings/(loss) per share are shown below:

£million	2010	2009 (re-presented)
Continuing operations:		
Profit/(loss) for the period attributable to owners of the Company	**18.5**	(18.8)
Exceptional items	**(4.5)**	17.4
Tax effect of exceptional items	**–**	(0.4)
Headline earnings/(loss)	**14.0**	(1.8)
Headline earnings/(loss) per share (pence)	**9.0**	(1.2)

The weighted average number of shares in issue is as follows:

Million	2010	2009
Basic	**155.0**	155.0
Adjustment for share awards	**–**	–
Diluted	**155.0**	155.0

11 Employee information

The average number of full time equivalent employees (including Directors) during the year from continuing operations was:

Number	2010	2009 (re-presented)
By function		
Production	**5,305**	5,018
Sales and distribution	**479**	494
Administration	**356**	382
	6,140	5,894
By division		
Components	**3,255**	3,027
Sensors	**1,049**	1,044
Integrated Manufacturing Services	**1,043**	1,056
Secure Power	**717**	587
General Industrial	**76**	180
Total continuing operations	**6,140**	5,894

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

£million	2010	2009
Wages and salaries	**120.7**	108.1
Social security charges	**20.7**	19.7
Employers' pension costs	**1.6**	1.3
	143.0	129.1

Remuneration in respect of the Directors was as follows:

£million	2010	2009
Emoluments	**1.9**	1.1

Further details of individual Directors' remuneration, pension benefits and share awards are shown in the Directors' remuneration report on pages 55 to 60.

Key management personnel

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

£million	2010	2009
Short-term benefits	**4.0**	2.3
Compensation for loss of office	**–**	0.1
Post-employment benefits	**0.2**	0.2
	4.2	2.6

In accordance with IAS 24 "Related party disclosures", key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Key management personnel comprise the Directors, Company Secretary, Divisional Chief Executives and Divisional Directors. Their compensation is considered and recommended to the Board by the Remuneration Committee.

Disclosures on Directors' remuneration required by the Companies Act 2006 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' remuneration report.

Notes to the consolidated financial statements

12 Property, plant and equipment

£million	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2009	69.1	364.3	433.4
Additions	0.5	8.9	9.4
Disposals	(1.9)	(26.2)	(28.1)
Net exchange adjustment	(2.9)	(15.9)	(18.8)
At 1 January 2010	64.8	331.1	395.9
Additions	0.1	10.7	10.8
Disposals	(0.6)	(24.7)	(25.3)
Disposal of subsidiaries	(2.1)	(18.5)	(20.6)
Net exchange adjustment	(0.9)	(2.8)	(3.7)
At 31 December 2010	**61.3**	**295.8**	**357.1**
Depreciation and impairment			
At 1 January 2009	15.2	280.8	296.0
Depreciation charge	2.1	22.0	24.1
Impairment	–	1.0	1.0
Disposals	(0.2)	(23.7)	(23.9)
Net exchange adjustment	(0.8)	(11.8)	(12.6)
At 1 January 2010	16.3	268.3	284.6
Depreciation charge	2.0	19.2	21.2
Impairment	0.4	–	0.4
Disposals	(0.3)	(24.2)	(24.5)
Disposal of subsidiaries	(0.4)	(15.4)	(15.8)
Net exchange adjustment	(0.3)	(2.0)	(2.3)
At 31 December 2010	**17.7**	**245.9**	**263.6**
Net book value			
At 31 December 2010	**43.6**	**49.9**	**93.5**
At 31 December 2009	48.5	62.8	111.3

Included within land and buildings are three investment properties with a carrying value of £3.5 million (2009: £3.5 million). The fair value of these properties is £6.0 million (2009: £7.1 million).

The carrying amount of land and buildings includes £0.3 million (2009: £0.3 million) in respect of assets held under finance leases.

No borrowing costs were capitalised by the Group during the year (2009: £nil) as no significant qualifying assets commenced construction after 1 January 2009.

The depreciation charge for the year is allocated to continuing operations £20.4 million (2009: £22.6 million) and discontinued operations £0.8 million (2009: £1.5 million).

13 Goodwill

	£million
Cost	
At 1 January 2009	74.5
Impairment	(3.8)
Net exchange adjustment	(4.8)
At 1 January 2010	65.9
Net exchange adjustment	1.0
At 31 December 2010	**66.9**

Goodwill is attributed to the following operating company cash generating units in the divisions shown below:

	£million
Components:	
BI Technologies, USA	29.0
Optek Technology, USA	18.3
New Chapel Electronics, UK	3.4
Semelab, UK	2.3
Integrated Manufacturing Services:	
TT electronics integrated manufacturing services, USA	8.0
TT electronics integrated manufacturing services, Suzhou	5.1
Other	0.8

Notes to the consolidated financial statements

13 Goodwill (continued)

Year ended 31 December 2010

The Group tests goodwill impairment for each cash generating unit ("CGU") annually or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and operating cash projections during the period for which management have detailed plans. Management estimate discount rates using pre-tax rates that reflect current market assessments of the Group's time value of money and the risks specific to the CGU being measured.

As part of the annual budgeting and strategic review processes, the Group prepares cash flow forecasts for the following three years. The growth rate assumed after this three-year period is based on long-term GDP projections of the primary market for the CGU. The long-term projections used are based on GDP growth of 3.0%. The growth rates assume that demand for our products remains broadly in line with the underlying economic environment in the long term future. Taking into account our expectation of future market conditions we believe that the evolution of selling prices and cost measures put into place will lead to a sustained improvement in profitability which is higher than in recent years.

The pre-tax rate used to discount the forecast cash flows is 8.3% for the UK businesses, 10.5% for the US businesses and 11.5% for the Chinese business.

Following detailed review, no impairment losses have been recognised in the year.

The goodwill allocated to each of BI Technologies ("BI"), Optek Technology ("Optek'") and TT electronics integrated manufacturing services USA ("Perry") are considered to be individually significant as they represent more than 10% of the Group's total goodwill carrying value. After translation using year end foreign exchange rates, these CGUs represent 83% or £55.3 million of the total goodwill balance.

The recoverable amounts associated with these goodwill balances have been determined on a value in use basis using conservative assumptions. A value in use test requires comparison of asset carrying values with pre-tax cash flows (which exclude any tax benefit). Furthermore, the value in use test ignores the related deferred tax liabilities which IFRS prevents from being included in any value in use calculation. Key assumptions and sensitivities are as follows:

- The budget and strategic review for these companies have been extrapolated in perpetuity using a long-term growth rate of 1.0% and discounted using the relevant entity discount rate. A key assumption in deriving the growth rate is that the businesses will grow in line with the underlying economic environment for the foreseeable future. Revenue would need to contract annually by 1.5% and 5.6% in BI and Optek respectively for the carrying value to be impaired. Revenue growth at Perry would have to be 2.6% rather than 3% for the carrying value to be impaired;
- Sensitivity analysis has determined that the discount rate of 10.5% in the US is an influential assumption on the outcome of the recoverable amount calculation. The recoverable amounts of BI, Optek and Perry exceed the total carrying value of assets for the CGU by £11.1 million, £12.6 million and £0.8 million respectively; the discount rate would need to increase to 13.1%, 15.8% and 10.8% for BI, Optek and Perry respectively in order for the carrying value to be impaired; and
- Sensitivity analysis has also been performed on the operating cash flow projections. Cash flows can be impacted by changes to sales projections, sales prices, direct costs and replacement capital expenditure. In order for the carrying value of goodwill for BI, Optek and Perry to be impaired the expected cash flows for every year would need to reduce by 22%, 36% and 4% respectively.

The Directors have not identified any other likely changes in other significant assumptions that would cause the carrying value of recognised goodwill to exceed its recoverable amount.

Year ended 31 December 2009

In the year ended 31 December 2009, an impairment charge of £3.8 million was recognised in respect of goodwill associated with Optek using a value in use model. A discount factor of 10% was used in the value in use model with sales growth rates of 6% per annum for 2013 and 2014, and 2% thereafter. The improvement in performance and profitability in 2010 in Optek and forecast growth has not led to any further impairment charges being recognised in 2010.

14 Other intangible assets

£million	Product development costs	Patents, licences and other	Customer relationships	Total
Cost				
At 1 January 2009	36.0	4.7	3.6	44.3
Additions	6.9	–	–	6.9
Disposals	(10.6)	–	–	(10.6)
Net exchange adjustment	(2.0)	(0.1)	(0.1)	(2.2)
At 1 January 2010	30.3	4.6	3.5	38.4
Additions	6.0	1.4	–	7.4
Disposals	(11.7)	(0.6)	–	(12.3)
Disposal of subsidiaries	(0.1)	–	–	(0.1)
Net exchange adjustment	(0.8)	–	–	(0.8)
At 31 December 2010	**23.7**	**5.4**	**3.5**	**32.6**
Amortisation				
At 1 January 2009	17.7	1.8	1.2	20.7
Charge for the year	10.8	0.4	0.6	11.8
Disposals	(10.6)	–	–	(10.6)
Net exchange adjustment	(1.0)	–	(0.1)	(1.1)
At 1 January 2010	16.9	2.2	1.7	20.8
Charge for the year	8.9	0.4	0.3	9.6
Disposals	(11.7)	(0.2)	–	(11.9)
Disposal of subsidiaries	(0.1)	–	–	(0.1)
Net exchange adjustment	(0.5)	–	–	(0.5)
At 31 December 2010	**13.5**	**2.4**	**2.0**	**17.9**
Net book value				
At 31 December 2010	**10.2**	**3.0**	**1.5**	**14.7**
At 31 December 2009	13.4	2.4	1.8	17.6

15 Inventories

£million	2010	2009
Raw materials	**40.2**	37.8
Work in progress	**21.8**	19.5
Finished goods	**19.4**	26.6
	81.4	83.9

Inventories are stated after deduction of a provision for slow moving and obsolete items of £24.5 million (2009: £17.9 million).

16 Trade and other receivables

£million	2010	2009
Trade receivables	**74.5**	68.3
Prepayments	**8.2**	8.0
Other debtors	**10.0**	8.8
	92.7	85.1

Notes to the consolidated financial statements

17 Financial risk management

The financial information disclosed in the tables relating to the year ended 31 December 2010 represents continuing operations only.

The main risks arising from the Group's financial instruments are foreign exchange risk, interest rate risk, credit risk and liquidity risk. These risks arise from exposures that occur in the normal course of business and are managed by the Group's Treasury department in close co-operation with the Group's business divisions and operating companies. The responsibilities of the Group's Treasury department includes the monitoring of financial risks, management of cash resources, debt and capital structure management, approval of counterparties and relevant transaction limits, and oversight of all significant treasury activities undertaken by the Group. The Group Treasury department operates as a service centre to the business divisions of the Group and not as a profit centre.

The Group's principal financial instruments comprise borrowings, cash and cash equivalents and derivatives used for risk management purposes. The Group's borrowings, surplus liquidity and derivative financial instruments are monitored and managed centrally by the Group's Treasury department.

The Group's accounting policies with regard to financial instruments are detailed in note 2(w) .

a) Derivatives, financial instruments and risk management

The Group uses derivative financial instruments to manage certain exposures to fluctuations in exchange rates and interest rates. The Group does not hold any speculative financial instruments.

The Group is exposed to transactional and translation foreign exchange risk. Transactional foreign exchange risk arises from sales or purchases by a Group company in a currency other than that company's functional currency. Translational foreign exchange risk arises on the translation of profits earned in overseas currencies into GBP and the translation of net assets denominated in overseas currencies into GBP, the Group's functional currency.

To mitigate against transactional foreign exchange risk, wherever possible, Group companies enter into transactions in their functional currencies with customers and suppliers. When this is not possible, then hedging strategies are undertaken through the use of forward currency contracts for up to one year ahead.

The Group uses forward currency profit hedges to mitigate against translational foreign exchange risk taking into account the level of forecast profits in foreign currencies, natural hedges and cost of taking out cover. In 2009 the Group hedged the effect of currency movements against sterling on the translation of 2009 profit earned in US dollars and Chinese yuan, by selling forward US dollars and Chinese yuan for sterling at fixed exchange rates. At 31 December 2009 contracts were in place to hedge the translation of 2010 profits for $3.6 million and €0.6 million. Subsequently contracts for the sale of a further $4.0 million were entered into. At 31 December 2010, no profit hedges had been taken out by the Group in respect of 2011 profits.

The Group's interest rate management policy is to maintain a balance between fixed and floating rates of interest on borrowings and deposits, and to use interest rate derivatives such as caps when appropriate. Following the re-financing undertaken in May 2010, the Group took out a three-year 1% LIBOR interest rate cap on £20 million of borrowings which caps the interest payable on half of the Group's fixed-term floating rate debt. The Group will therefore benefit from LIBOR levels which are significantly below their historic averages on the remainder of the floating rate debt.

At 31 December 2009 the Group had an interest rate cap applying to $50 million of borrowings at a rate of 4.75%. This cap expired in February 2010. Furthermore, at 31 December 2009 the Group had an interest rate swap fixing the interest rate on $50 million of borrowings to April 2011. Following the re-financing undertaken in May 2010, the fair value of the interest rate swap included within equity was written off to the income statement resulting in an expense on £0.2 million which is included within finance costs.

The forward currency contracts and interest rate cap have been designated as cash flow hedges and the mark to market valuation of these derivatives at 31 December 2010 is taken to the hedging reserve within equity. At 31 December 2010, the Group had a net derivative financial liability of £4.3 million (2009: net derivative financial liability of £0.2 million).

Included within derivative financial liabilities is a cash settled put and call option associated with a minority interest in one of the Group's subsidiaries of £4.3 million (2009: £nil). This has been accounted for under the anticipated acquisition method which results in the recognition of the liability at its fair value and the elimination of the minority interest. Changes in the fair value of the liability are reflected as a movement in reserves. An interest expense on the financial liability is recognised within finance costs in the income statement.

17 Financial risk management (continued)

b) Foreign exchange risk

The Group's exposure to foreign currency is shown below:

£million	GBP	USD	Euro	Other	Total
31 December 2010					
Trade and other receivables	**0.4**	**13.1**	**3.7**	**3.3**	**20.5**
Cash and cash equivalents	**0.1**	**5.9**	**1.9**	**1.6**	**9.5**
Borrowings	**–**	**(6.4)**	**–**	**–**	**(6.4)**
Trade and other payables	**(0.8)**	**(11.5)**	**(2.4)**	**(2.7)**	**(17.4)**
	(0.3)	**1.1**	**3.2**	**2.2**	**6.2**
31 December 2009					
Trade and other receivables	0.6	21.1	6.0	5.3	33.0
Cash and cash equivalents	0.2	9.5	3.1	2.6	15.4
Borrowings	–	–	–	–	–
Trade and other payables	(1.3)	(18.5)	(3.9)	(4.4)	(28.1)
	(0.5)	12.1	5.2	3.5	20.3

A 10% strengthening of GBP against the following currencies at 31 December would have increased/(decreased) equity and profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009:

£million	2010	2009
US dollar	**0.1**	1.2
Euro	**0.3**	0.5

A 10% weakening of GBP against the above currencies at 31 December would have had an equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant.

c) Interest rate risk

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates primarily impact borrowings by changing their future cash flows (floating rate debt) or their fair value (fixed rate debt) and deposits.

The exposure of the Group's financial assets and liabilities to interest rate risk is as follows:

£million	Floating rate	Fixed rate	Non-interest bearing	2010 total
Financial assets				
Trade and other receivables	**–**	**–**	**84.5**	**84.5**
Cash and cash equivalents	**33.8**	**11.0**	**–**	**44.8**
Total financial assets	**33.8**	**11.0**	**84.5**	**129.3**
Financial liabilities				
Borrowings	**(39.4)**	**(15.3)**	**–**	**(54.7)**
Trade and other payables	**–**	**–**	**(110.7)**	**(110.7)**
Derivative financial instruments	**–**	**–**	**(4.3)**	**(4.3)**
Total financial liabilities	**(39.4)**	**(15.3)**	**(115.0)**	**(169.7)**

At 31 December 2010, 28% (2009: 7%) of total debt was at a fixed rate and the balance was at floating rate. Of the floating rate borrowings of £39.4 million, £20 million has been hedged using an interest rate cap fixed at 1% until May 2013. Including the impact of the interest rate cap, 65% of the total debt was fixed at 31 December 2010.

Notes to the consolidated financial statements

17 Financial risk management (continued)

£million	Floating rate	Fixed rate	Non-interest bearing	2009 total
Financial assets				
Trade and other receivables	–	–	77.1	77.1
Cash and cash equivalents	22.7	2.0	–	24.7
Total financial assets	22.7	2.0	77.1	101.8
Financial liabilities				
Borrowings	(75.7)	(5.9)	–	(81.6)
Trade and other payables	–	–	(88.0)	(88.0)
Derivative financial instruments	–	–	(0.2)	(0.2)
Total financial liabilities	(75.7)	(5.9)	(88.2)	(169.8)

The interest charged on floating rate financial liabilities is based on the relevant benchmark rate (such as LIBOR). Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Considering the net debt position of the Group at 31 December 2010, any increase in interest rates would result in a net loss in the consolidated income statement, and any decrease in interest rates would result in a net gain. The effect on profit after tax of a 1% movement in £LIBOR, based on the year-end floating rate net debt and with all other variables held constant, is estimated to be £0.1 million (2009: £0.5 million).

d) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets. Investments in cash and cash equivalents and derivative financial instruments are with approved counterparty banks and other financial institutions. Counterparties are assessed prior to, during, and after the conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level. The maximum exposure with respect to credit risk is represented by the carrying amount of each financial asset on the balance sheet.

Credit risk relating to trade receivables

The Group's major exposure to credit risk is in respect of trade receivables. Given the number and geographical spread of the Group's ultimate customers and the solvency of major trade debtors, credit risk is believed to be limited. 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. The Group regularly monitors its exposure to bad debts in order to minimise this exposure.

The Group has strict procedures in place to manage the credit risk on trade receivables. Customer credit risk is managed by each operating company within a division but is subject to Group oversight to ensure that each division's customer credit risk management system operates in a prudent and responsible manner. Credit evaluations are performed for all customers and credit limits are established based on internal or external rating criteria. The credit quality of the Group's significant customers is monitored on an on-going basis, and receivables that are neither past due nor impaired are considered of good credit quality. Letters of credit or payments in advance are obtained where customer credit quality is not considered strong enough for open credit.

Trade receivables are denominated in the currencies in which the Group trades. The Group's policy is that receivables and payables 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 which can be hedged using foreign exchange hedges.

There were no material impairments of trade receivables as at 31 December 2010 or 2009. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets.

(i) Risk for trade receivables by geographical regions

The maximum exposure to credit risk for trade receivables at 31 December by geographic areas was:

£million	**2010**	2009
Europe (including UK)	**44.3**	40.6
North America	**14.3**	13.1
Central and South America	**6.2**	5.7
Asia	**7.4**	6.8
Rest of the World	**2.3**	2.1
	74.5	68.3

17 Financial risk management (continued)

(ii) Impairment losses
The ageing of trade receivables at 31 December was:

£million	2010 Gross	2010 Impairment	2009 Gross	2009 Impairment
Not past due	**44.3**	**–**	40.3	–
Past due 0–60 days	**21.8**	**(0.1)**	19.8	–
Past due 60–120 days	**5.4**	**–**	4.9	(0.1)
More than 120 days	**7.1**	**(4.0)**	6.5	(3.1)
	78.6	**(4.1)**	71.5	(3.2)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

£million	2010	2009
At 1 January 2010	**3.2**	4.9
Charged to income statement	**0.7**	0.2
Written off	**–**	(1.5)
Net exchange adjustment	**0.2**	(0.4)
At 31 December 2010	**4.1**	3.2

(iii) Credit risk related to other financial assets and cash deposits
Credit risk relating to the Group's other financial assets, principally comprising cash and cash equivalents, other receivables and derivative financial instruments arises from the potential default of counterparties. Credit risk arising from balances with banks and financial institutions is managed by the Group's Treasury Department. Investment of cash and deposits are made only with approved counterparties of high credit worthiness and are reviewed on a regular basis to take account of developments in financial markets.

No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to derivative financial instruments and other receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

£million	2010	2009
Other receivables	**10.0**	8.8
Cash and cash equivalents	**44.8**	24.7
Derivative financial instruments (current assets)	**0.4**	0.3

e) Liquidity risk
The Group maintains a balance between availability of funding and maximising investment return on cash balances through the use of short term cash deposits, credit facilities and longer term debt instruments. Management regularly reviews the funding requirements of the Group.

The Group's policy is to centrally manage debt and surplus cash balances.

At 31 December 2010, the Group had £21.2 million of undrawn committed borrowing facilities (2009: £27.8 million).

Maturity of financial assets and liabilities
The table below analyses the Group's financial assets and liabilities, which will be settled on a gross basis, into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
31 December 2010					
Trade and other receivables	**–**	**84.5**	**–**	**–**	**84.5**
Cash and cash equivalents	**33.8**	**11.0**	**–**	**–**	**44.8**
	33.8	**95.5**	**–**	**–**	**129.3**
Borrowings	**(0.6)**	**(0.4)**	**(6.1)**	**(51.6)**	**(58.7)**
Trade and other payables	**–**	**(110.7)**	**–**	**–**	**(110.7)**
Derivative financial instruments	**–**	**–**	**–**	**(5.3)**	**(5.3)**
	(0.6)	**(111.1)**	**(6.1)**	**(56.9)**	**(174.7)**

Notes to the consolidated financial statements

17 Financial risk management (continued)

At 31 December 2010, the Group had derivative financial instruments hedging a notional contractual amount of £81.7 million, of which £29.7 million relates to foreign exchange cash flow hedges and £52.0 million to interest rate cash flow hedges. Of this total amount, £61.7 million matures within one year and £20.0 million matures between one and five years.

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
31 December 2009					
Trade and other receivables	–	77.1	–	–	77.1
Cash and cash equivalents	22.7	2.0	–	–	24.7
	22.7	79.1	–	–	101.8
Borrowings	(0.2)	(0.3)	(11.9)	(70.7)	(83.1)
Trade and other payables	–	(88.0)	–	–	(88.0)
Derivative financial instruments	–	(0.2)	–	–	(0.2)
	(0.2)	(88.5)	(11.9)	(70.7)	(171.3)

f) Fair value of financial assets and liabilities

The Group adopted the amendment to IFRS7 'Financial Instruments: Disclosures' for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

£million	**Carrying value**	**2010 Fair value**	Carrying value	2009 Fair value
Trade and other receivables	**84.5**	**84.5**	77.1	77.1
Cash and cash equivalents	**44.8**	**44.8**	24.7	24.7
Borrowings	**(54.8)**	**(54.4)**	(81.6)	(81.2)
Trade and other payables	**(110.7)**	**(110.7)**	(88.0)	(88.0)
Derivative financial instruments	**(4.3)**	**(4.3)**	(0.2)	(0.2)

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- cash and cash equivalents, trade and other receivables, trade and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments;
- the fair value of derivative financial instruments are estimated by discounting expected future cash flows using current market indices such as yield curves and forward exchange rates over the remaining term of the instrument (level 1 and level 2);
- provisions for cash payments are discounted back to their present value; and
- the fair value of borrowings is estimated by discounting future cash flows using rates currently available for debt and remaining maturities.

g) Capital management

The over-riding objectives of the Group's capital management policy are to safeguard and support the business as a going concern through the business cycle and to maintain an optimal capital structure by reducing the Group's overall cost of capital.

The Group maintains a balance between availability of funding and maximising investment return on cash balances through the use of short term cash deposits, credit facilities and longer term debt instruments, and management regularly reviews the funding requirements of the Group.

Dividends are paid when the Board consider it appropriate to do so, taking into account the availability of funding. The Group's dividend policy is to increase dividends progressively whilst maintaining cover of at least two times underlying earnings per share.

The Group is in a net debt position of £9.9 million (2009: £56.9 million). Included within the debt facilities are financial covenants related to net debt/EBITDA before exceptional items and EBITDA before exceptional items/net finance charges for which compliance certificates are produced on a 12 month rolling basis each quarter. All financial covenants were fully complied with during the year and up to the date of approval of the financial statements. There are no covenants under negotiation at present.

18 Share capital

£million	2010	2009
Issued and fully paid		
155,124,724 (2009: 154,952,795) Ordinary shares of 25p each	**38.8**	38.7

During the year the Company issued 171,929 Ordinary shares as a result of share options being exercised under the 2004 Approved Plan. The aggregate consideration received was £0.3 million, which was represented by a £0.1 million increase in share capital and a £0.2 million increase in share premium.

19 Share-based payment plans

The Company has the following share-based payment plans in operation at 31 December 2010:

- Share option schemes, which are closed for future grants;
- Long Term Incentive Plans ("LTIP") for senior executives;
- Restricted Share Plan for certain senior executives; and
- Sharesave plan for UK employees.

a) Share option schemes

Details of the share options outstanding during the year are as follows:

	2010		2009	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
At 1 January	**2,618,043**	**135.3**	4,145,419	134.2
Granted	**–**	**–**	–	–
Forfeited	**(1,434,857)**	**140.9**	(1,036,879)	125.6
Exercised	**171,929**	**145.0**	–	–
Expired	**(218,954)**	**91.5**	(490,497)	146.4
At 31 December	**1,136,161**	**138.2**	2,618,043	135.3
Exercisable at 31 December	**234,595**	**145.0**	447,419	145.0

At 31 December 2010 options were exercisable over 1,136,161 (2009: 2,618,043) ordinary shares under the Group share option schemes up to 2015. Subscription prices range from 80.0p to 205.5p with a weighted average of 138.2p and a weighted average remaining contractual life of 2.44 years (2009: 3.0 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 are 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 annum for options granted prior to 2001 and 4% per annum for options granted after 2000 above the increase in the Retail Price Index over the same period.

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.

b) Long Term Incentive Plans

Details of the LTIP awards outstanding during the year are as follows:

	2010 Number of share awards	2009 Number of share awards
At 1 January	**5,458,293**	2,189,744
Granted	**1,846,920**	4,002,502
Forfeited	**(339,988)**	(733,953)
Vested	**–**	–
Expired	**(659,346)**	–
At 31 December	**6,305,879**	5,458,293
Exercisable at 31 December	**–**	–

During 2009 and 2010 grants of awards were made under the LTIP for the issue of shares in 2012 and 2013 respectively. 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 require the achievement of earnings per share ("EPS") and total shareholder return ("TSR") targets as detailed in the Directors' remuneration report on page 56.

On 5 May 2009 and 27 October 2009 grants of awards were made under the LTIP for the issue of up to 3,799,835 and 202,667 shares in 2012.

Notes to the consolidated financial statements

19 Share-based payment plans (continued)

On 4 May 2010 and 24 September 2010, grants of awards were made under the LTIP for the issue of up to 1,781,178 and 65,742 shares in 2013.

The fair value of the shares was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the shares were granted. This model simulated the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share price performance.

The following table lists the inputs to the model:

	2010		2009	
	Shares with a 24 September 2010 grant date	**Shares with a 4 May 2010 grant date**	Shares with a 27 October 2009 grant date	Shares with a 5 May 2009 grant date
Number of awards	**65,742**	**1,781,180**	202,667	3,799,835
Fair value at grant date	**84,700**	**1,676,200**	119,168	873,962
Share price at grant date	**146.0p**	**105.0p**	75.0p	28.75p
Exercise price	**£nil**	**£nil**	£nil	£nil
Expected volatility	**68%**	**68%**	80%	80%
Expected weighted average life at 31 December 2010	**2.8**	**2.3**	1.8	1.3

The award of shares is not affected by the risk free rate of interest since no investment is required by the recipient, and therefore no interest could be earned elsewhere. Expected volatility is based on historic share price movements.

Furthermore, on 4 May 2010 140,000 notional share awards were granted to senior executives which will ultimately be settled in cash. These awards are subject to the same vesting criteria as the 4 May 2010 LTIP grant.

The LTIP grants made in 2007 did not vest and the grants made in 2008 are not forecast to vest based on the performance conditions.

c) Restricted Share Plan

On 24 September 2010, the Group granted 259,515 shares under a restricted share plan to certain senior executives. The award is a contingent right to receive shares with a three-year vesting period subject to continued employment with the Group and no performance conditions. Details of the restricted share plan awards outstanding during the year are as follows:

	2010 Number of share awards
At 1 January 2010	**–**
Granted	**259,515**
Forfeited	**–**
Exercised	**–**
Expired	**–**
At 31 December 2010	**259,515**
Exercisable at 31 December 2010	**–**

The fair value of the shares at grant date was 139.0p.

The Company purchased 259,515 shares on 12 October 2010 at a cost of £0.4 million through an Employee Benefit Trust. These shares are dilutive for the purposes of earnings per share.

d) Sharesave scheme

On 1 October 2010, the Group granted 1,492,920 shares to participating UK employees in a Sharesave scheme under either a three-year or five-year plan. Employees may purchase the Group's shares at a 20% discount to the closing market price on 3 September 2010 of 142.5p up to a maximum contribution value of £3,000 in any one year. Monthly contributions are saved with Equiniti Ltd, the Registrars, in the employee's share savings plan and will only be released to employees who remain in the Group's employment for a period of either three or five years from date of grant. Options become exercisable on completion of either the three or five year term or within six months of leaving in certain circumstances. The fair value of the shares at grant date was 70.0p for the three-year scheme and 79.0p for the five-year scheme.

19 Share-based payment plans (continued)

Details of the Sharesave awards outstanding during the year are as follows:

	2010 Number of share awards
At 1 January 2010	–
Granted	**1,492,920**
Forfeited	–
Exercised	–
Expired	–
At 31 December 2010	**1,492,920**
Exercisable at 31 December 2010	–

The total share-based payment charge for the year arising from the above share scheme plans was £0.3 million (2009: credit of £0.2 million).

20 Hedging and translation reserves

£million	Hedging reserve	Translation reserve	Total
At 1 January 2009	(18.1)	53.9	35.8
Exchange differences on translation of foreign operations	–	(15.6)	(15.6)
Tax on exchange differences	–	0.4	0.4
Gain on hedge of net investment in foreign operations	4.5	–	4.5
Cash flow hedges	2.1	–	2.1
At 1 January 2010	(11.5)	38.7	27.2
Exchange differences on translation of foreign operations	–	2.1	2.1
Tax on exchange differences	–	0.1	0.1
Loss on hedge of net investment in foreign operations	–	(0.9)	(0.9)
Cash flow hedges	(0.2)	–	(0.2)
Foreign exchange loss on disposals taken to income statement	–	(1.7)	(1.7)
At 31 December 2010	**(11.7)**	**38.3**	**26.6**

21 Retained earnings

£million	
At 1 January 2009	134.6
Loss for the year	(19.6)
Actuarial net loss on defined benefit pension schemes (see note 31)	(28.7)
At 1 January 2010	86.3
Profit for the year	25.9
Fair value of minority put option	(3.5)
Dividends paid by the Company	(1.2)
Actuarial net loss on defined benefit pension schemes (see note 31)	(5.9)
Tax on actuarial amounts in pension deficit movement	8.1
At 31 December 2010	**109.7**

Notes to the consolidated financial statements

22 Borrowings

£million (unless otherwise stated)	Maturity	Currency of denomination	Current	Non-current	Total
31 December 2010					
£60 million multi-currency club facility	**2013**	**GBP/USD**	**–**	**39.7**	**39.7**
£10 million manufacturing fund loan	**2013**	**GBP**	**–**	**10.0**	**10.0**
AB Mikroelektronik GmbH loan	**2011**	**Euro**	**4.2**	**–**	**4.2**
TT Automotive Electronics (Suzhou) Co. loan	**2011**	**CNY**	**0.6**	**–**	**0.6**
AB Electronics (Suzhou) Co. loan	**2011**	**CNY**	**0.5**	**–**	**0.5**
Overdrafts			**0.6**	**–**	**0.6**
Finance leases (see note 25)			**0.1**	**0.3**	**0.4**
Loan arrangement fee			**(0.6)**	**(0.7)**	**(1.3)**
Total			**5.4**	**49.3**	**54.7**
31 December 2009					
£70 million multi-currency bank loan	2011	GBP	–	70.0	70.0
£5 million multi-currency bank loan	2010	GBP	5.0	–	5.0
AB Mikroelektronik GmbH loan	2010	Euro	5.9	0.1	6.0
Overdrafts			0.2	–	0.2
Finance leases (see note 25)			0.1	0.3	0.4
Total			11.2	70.4	81.6

In May 2010, the Group agreed a new committed facility of £60 million over three years to May 2013 with a club of four banks comprising HSBC, The Royal Bank of Scotland, Santander and Fifth Third Bank of the USA. This facility is made up of a term loan amount of £40 million and a revolving credit facility of £20 million. At 31 December 2010, the term loan was fully drawn down and the revolving credit facility was undrawn. The interest margin payable on the facility is based on the Group's compliance with covenants (net debt/EBITDA before exceptional items and EBITDA before exceptional items/net finance charges) and is payable on a floating basis above £LIBOR or $LIBOR depending on the currency of denomination of the loan. Of the £40 million drawn down, a 1% £LIBOR interest rate cap was taken out in June 2010 which limits the interest payable on £20 million of the borrowings.

In May 2010, the Group also agreed a £10 million fixed rate bi-lateral three-year manufacturing fund loan with The Royal Bank of Scotland. This bi-lateral loan and the club facility replaced the £70 million term loan which had been due for repayment in April 2011. Arrangement fees with an amortised cost of £1.3 million, gross cost before amortisation of £1.9 million, have been netted off against these borrowings in accordance with IFRS.

The loan in AB Mikroelektronik GmbH is an export facility loan and used for working capital purposes within that business.

The loans in TT Automotive Electronics (Suzhou) Co. Ltd and AB Electronics (Suzhou) Co. Ltd are used for working capital purposes within China.

The £5 million multi-currency bank loan at 31 December 2009 was re-paid in April 2010.

Undrawn facilities

At 31 December 2010, the total borrowing facilities available to the Group amounted to £110.7 million (2009: £142.1 million). At 31 December 2010, the Group had available £21.2 million (2009: £27.8 million) of undrawn committed borrowing facilities.

23 Reconciliation of net cash flow to movement in net debt

£million	Net cash/overdraft	Borrowings and finance leases	Net debt
At 1 January 2009	(12.2)	(101.0)	(113.2)
Cash flow	36.6	14.8	51.4
Exchange differences	0.1	4.8	4.9
At 31 December 2009	24.5	(81.4)	(56.9)
Cash flow	19.1	27.5	46.6
Non-cash items	–	(0.6)	(0.6)
Exchange differences	0.6	0.4	1.0
At 31 December 2010	**44.2**	**(54.1)**	**(9.9)**

24 Deferred tax

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

£million	As at 1 January 2010	Continuing operations	Businesses disposed	Recognised in equity	Net exchange translation	As at 31 December 2010
Intangible assets	**(3.7)**	**0.1**	**–**	**–**	**(0.1)**	**(3.7)**
Property, plant and equipment	**(2.5)**	**1.7**	**–**	**–**	**–**	**(0.8)**
Deferred development costs	**(4.0)**	**0.9**	**–**	**–**	**0.1**	**(3.0)**
Retirement benefit obligations	**5.6**	**(0.5)**	**–**	**6.6**	**0.1**	**11.8**
Inventories	**1.6**	**1.2**	**–**	**–**	**–**	**2.8**
Provisions	**2.5**	**1.6**	**–**	**–**	**0.1**	**4.2**
Tax losses	**0.1**	**0.5**	**–**	**–**	**–**	**0.6**
Unremitted overseas earnings	**(0.3)**	**(0.5)**	**–**	**–**	**–**	**(0.8)**
Share-based payments	**–**	**–**	**–**	**0.7**	**–**	**0.7**
Short-term timing differences	**(0.3)**	**(0.5)**	**0.2**	**–**	**–**	**(0.6)**
Deferred tax asset/(liability)	**(1.0)**	**4.5**	**0.2**	**7.3**	**0.2**	**11.2**

£million	As at 1 January 2009	Continuing operations	Net exchange translation	As at 31 December 2009
Intangible assets	(3.8)	(0.2)	0.3	(3.7)
Property, plant and equipment	(2.6)	(0.1)	0.2	(2.5)
Deferred development costs	(5.5)	1.2	0.3	(4.0)
Retirement benefit obligations	4.5	0.9	0.2	5.6
Inventories	2.4	(0.6)	(0.2)	1.6
Provisions	1.5	1.3	(0.3)	2.5
Tax losses	–	0.1	–	0.1
Unremitted overseas earnings	–	(0.3)	–	(0.3)
Short-term timing differences	0.3	(0.6)	–	(0.3)
Deferred tax asset/(liability)	(3.2)	1.7	0.5	(1.0)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances:

£million	2010	2009
Deferred tax assets	**20.1**	4.9
Deferred tax liabilities	**(8.9)**	(5.9)
Net deferred tax asset/(liability)	**11.2**	(1.0)

At 31 December 2010, the Group had the following items for which no deferred tax assets have been recognised:

£million	2010	2009
Tax losses	**26.0**	28.2
Property, plant and equipment	**16.1**	21.4

Included within the £26.0 million of unrecognised tax losses in the table above is £9.8 million of tax losses within the Company. Since UK tax legislation does not allow the utilisation of brought forward tax losses of one UK entity against the current year tax profits of another UK entity, the use of these tax losses is therefore limited.

At the balance sheet date the aggregate unrecognised deferred tax liability in respect of undistributed earnings of subsidiaries is £0.2 million (2009: £1.4 million).

Notes to the consolidated financial statements

25 Obligations under finance leases

£million	Minimum lease payments 2010	Minimum lease payments 2009	Present value of minimum lease payments 2010	Present value of minimum lease payments 2009
Amounts payable under finance leases:				
One year or less	**0.1**	0.1	**0.1**	0.1
Between one and five years	**0.2**	0.3	**0.2**	0.2
Over five years	**0.1**	0.1	**0.1**	0.1
	0.4	0.5	**0.4**	0.4

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 obligation is 8% (2009: 8%). The fair value of the lease obligation approximates to carrying amount. Total minimum lease payments include £nil (2009: £0.1 million) of future finance costs.

26 Provisions

£million	Reorganisation	Environmental	Legal and other	Total
At 1 January 2009	2.5	0.1	3.1	5.7
Utilised	(9.6)	–	(1.0)	(10.6)
Arising during the year	13.7	–	0.3	14.0
At 1 January 2010	6.6	0.1	2.4	9.1
Utilised	(5.5)	(0.1)	(1.7)	(7.3)
Arising during the year	–	–	1.3	1.3
At 31 December 2010	**1.1**	**–**	**2.0**	**3.1**

The reorganisation provision relates to the restructuring programme that was initiated in 2009. The environmental provision is for clean up costs of ex-production sites. Legal and other claims represent the best estimate for the cost of settling outstanding product and other claims.

The total provisions are analysed between current and non-current as follows:

£million	2010	2009
Non-current	**0.1**	0.2
Current	**3.0**	8.9
	3.1	9.1

27 Trade and other payables

£million	2010	2009
Current liabilities		
Trade payables	**61.7**	50.5
Taxation and social security	**3.6**	5.6
Other payables, accruals and deferred income	**47.6**	32.6
	112.9	88.7

£million	2010	2009
Non-current liabilities		
Accruals and deferred income	**5.4**	6.7

28 Contingent liabilities

The Group has contingent liabilities amounting to £1.0 million (2009: £1.5 million) in respect of performance bonds and guarantees entered into in the normal course of business. The Group is subject to claims which arise in the ordinary course of business. Other than those for which provisions have been included within note 26, the Directors consider the likelihood of any other claims giving rise to a significant liability to be remote.

29 Capital commitments

£million	2010	2009
Contractual commitments for the purchase of property, plant and equipment	**3.2**	1.8

30 Operating leases

Operating lease payments charged to the income statement are as follows:

£million	2010	2009
Fixtures and equipment	**0.3**	0.3
Land and buildings	**4.0**	4.4

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

£million	2010	2009
In less than one year	**3.3**	4.0
Between one and five years	**9.1**	9.1
After five years	**3.7**	4.0

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

31 Retirement benefit schemes

Defined contribution schemes

The Group operates 401(k) plans in North America and defined contribution arrangements in the rest of the world. The assets of these schemes are held independently of the Group. The total contributions charged by the Group in respect of defined contribution schemes were £1.5 million (2009: £2.1 million).

Defined benefit schemes

The Group operates one significant defined benefit scheme in the UK and two overseas defined benefit schemes in the USA and Japan. All of these schemes are closed to new members and, in April 2010, the UK scheme was closed to future accrual following extensive consultation with affected employees being transferred into an enhanced Group defined contribution scheme. A one-off reduction in future liabilities of £4.3 million was recognised in the consolidated income statement as an exceptional item. In addition, the Company agreed with the Trustee to apportion the pension scheme liabilities from the participating employers to TT electronics plc. This provides additional security to the scheme whilst providing the Group with greater operational flexibility.

The Company had reached agreement with the Trustee of the UK scheme for additional fixed contributions extending to 2016 based on the actuarial deficit at April 2007 and these arrangements have been confirmed under the actuarial valuation at April 2010. £3.2 million was paid in 2010 and further planned contributions amount to: 2011 £3.5 million, 2012 £3.7 million then increasing by £0.2 million each year to £4.5 million in 2016.

The Group also operates defined benefit schemes in the United States and Japan. Actuarial valuations of the schemes were carried out by independent qualified actuaries in 2010 using the projected unit credit method. Pension scheme assets are stated at their market value at 31 December 2010.

An analysis of the pension deficit by country is shown below:

£million	2010	2009
UK	**38.6**	40.7
USA	**2.2**	2.4
Japan	**0.4**	0.6
	41.2	43.7

Notes to the consolidated financial statements

31 Retirement benefit schemes (continued)

The principal assumptions used for the purpose of the actuarial valuations for the Group's primary defined benefit scheme, the UK scheme, were as follows:

%	2010	2009
Discount rate	**5.4**	5.8
Inflation rate	**3.5**	3.4
Increases to pensions in payment	**2.5–3.5**	2.5–3.4
Salary increases	**n/a**	3.9

A decrease in the discount rate by 0.1% per annum increases the liabilities by approximately £6.0 million. An increase in the inflation rate of 0.1% per annum increases the liabilities by approximately £3.5 million.

The assumptions have not been adjusted to reflect the UK Government's announcement in 2010 to change the basis for the indexation of occupational pension schemes from the Retail Price Index to the Consumer Price Index. The Group is in the process of evaluating the implications of this change and will communicate with affected members during 2011.

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:

%	2010	2009
Equities	**7.4**	7.8
Bonds	**4.8**	5.2
Gilts and swaps	**3.4**	3.8
Cash	**0.1**	0.1

The mortality tables applied by the actuaries at 31 December 2010 were S1NA tables adjusted by + one year, with future improvements increasing in line with medium cohort with a 1% p.a. floor. This compares with PA92 tables adjusted by + two years with future improvements increasing in line with medium cohort at 31 December 2009. This change is in line with the assumptions used in the triennial valuation in April 2010.

The amounts recognised in respect of the pension deficit in the Consolidated balance sheet are:

£million	2010	2009	2008	2007	2006	2005
Equities	**199.8**	190.0	174.7	182.0	187.8	170.5
Bonds	**36.8**	36.8	25.8	12.4	10.9	2.9
Gilts and cash	**63.0**	61.6	48.7	103.8	73.4	72.3
Swaps	**38.5**	18.1	33.9	–	–	–
Fair value of assets	**338.1**	306.5	283.1	298.2	272.1	245.7
Present value of funded obligation	**(379.3)**	(350.2)	(301.7)	(315.6)	(344.7)	(335.9)
Net liability recognised on the Consolidated balance sheet	**(41.2)**	(43.7)	(18.6)	(17.4)	(72.6)	(90.2)

The schemes' assets do not include the Group's financial instruments nor any property occupied by, or other assets used by the Group. Swaps are liability driven instruments taken out to hedge part of the scheme inflation and interest rate risks.

Amounts recognised in the Consolidated income statement are:

£million	2010	2009
Current service cost	**0.3**	1.7
Curtailment gain	**(4.3)**	(1.9)
Interest on pension obligations	**19.8**	17.9
Expected return on schemes' assets	**(19.3)**	(15.6)

Of the current service cost of £0.3 million (2009: £1.7 million), £0.2 million (2009: £1.1 million) is included in cost of sales in the income statement, £nil million (2009: £0.3 million) is included in distribution costs and £0.1 million (2009: £0.3 million) is included in administrative expenses.

The actual return on schemes assets was a gain of £45.8 million (2009: a gain of £31.4 million). Actuarial gains and losses are recognised directly in retained earnings and reported in the Consolidated statement of comprehensive income and, since transition to IFRS, amount to a net loss of £30.9 million.

31 Retirement benefit schemes (continued)

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

£million	2010	2009
Defined benefit obligation at 1 January	**350.2**	301.7
Current service cost	**0.3**	1.7
Interest on obligation	**19.8**	17.9
Scheme participant contributions	**0.2**	1.0
Curtailment	**(4.3)**	(1.9)
Change in actuarial estimates and assumptions	**31.8**	44.5
Exchange differences	**–**	(0.6)
Benefits paid	**(18.7)**	(14.1)
Defined benefit obligation at 31 December	**379.3**	350.2

Changes in the fair value of the schemes' assets are:

£million	2010	2009
Fair value of schemes' assets at 1 January	**306.5**	283.1
Expected return on schemes' assets	**19.3**	15.6
Excess/(deficit) of actual over expected returns	**25.9**	15.8
Contributions by employer	**4.9**	5.4
Contributions by employees	**0.2**	1.0
Exchange differences	**–**	(0.3)
Benefits paid	**(18.7)**	(14.1)
Fair value of schemes' assets at 31 December	**338.1**	306.5

The experience adjustments arising on the scheme's assets and liabilities are reported in the Consolidated statement of comprehensive income and are as follows:

£million	2010	2009	2008	2007	2006	2005
Experience adjustments on schemes' liabilities	**(31.8)**	(44.5)	22.2	37.8	(6.2)	(47.6)
Experience adjustments on schemes' assets	**25.9**	15.8	(25.4)	0.5	9.4	21.6
	(5.9)	(28.7)	(3.2)	38.3	3.2	(26.0)

The Group expects to contribute approximately £3.5 million to defined benefit schemes in 2011.

32 Related party transactions

	Purchase of goods and services		Sale of goods and services		Rents paid		Rents received		Amounts owed to related parties	
£000	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
TT electronics plc	**–**	–	**–**	1	**–**	110	**–**	–	**–**	–
Subsidiaries	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
	–	–	**–**	1	**–**	110	**–**	–	**–**	–

Related party transactions solely related to transactions with JW Newman, the former Chairman, who retired from the Board on12 May 2010. All transactions were at arm's length prices on normal credit terms and were paid to agreed terms. There were no related party transactions during 2010.

Company balance sheet

£million	Note	2010	2009
Fixed assets			
Tangible assets	2	**2.2**	2.3
Investments	3	**128.8**	132.3
Deferred tax asset	14	**11.1**	–
		142.1	134.6
Current assets			
Debtors	4	**59.5**	119.0
Cash at bank and in hand		**10.0**	0.1
		69.5	119.1
Creditors: amounts falling due within one year	5	**(10.2)**	(7.7)
Net current assets		**59.3**	111.4
Total assets less current liabilities		**201.4**	246.0
Creditors: amounts falling due after more than one year	5	**–**	(70.0)
Pension liability	13	**(38.6)**	–
Net assets		**162.8**	176.0
Capital and reserves			
Called up share capital	7	**38.8**	38.7
Share premium account	9	**0.4**	0.2
Profit and loss account	9	**123.6**	137.1
Shareholders' funds		**162.8**	176.0

Approved by the Board of Directors on 16 March 2011 and signed on their behalf by:

G Anderson
Director

S D Dasani
Director

Notes to the Company financial statements

1 Significant accounting policies

Basis of preparation

The financial statements of TT electronics plc (the Company) are presented as required by the Companies Act 2006 and have been prepared under the historical cost convention as modified by the revaluation of financial assets and derivatives held at fair value and in accordance with applicable United Kingdom accounting standards and law.

The following amendments to standards have been adopted in these financial statements for the first time. Adoption of these standards did not have a significant impact on the financial position and performance of the Company.

- The amendment to FRS 20 (IFRS 2) Group Cash-settled Share-based Payment. The amendments expand the definition of a share-based payment to bring all Group entities' financial statements within the scope of the standard for all Group awards; and
- Improvements to FRSs.

The following new and amendments to standards are not yet effective, but are not expected to have a significant impact on the financial position and performance of the Company:

- Amendment to FRS 25 Financial Instruments: Presentation (Classification of rights issues) – mandatory for periods starting on or after 1 February 2010; and
- FRS 30: Heritage Assets – mandatory for periods starting on or after 1 April 2010.

The principal accounting policies are summarised below and have been applied consistently throughout the year and prior year:

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 2 to the consolidated financial statements. The carrying values of fixed assets are reviewed for impairment when there is an indication that the assets may be impaired.

Investments

Fixed asset investments in subsidiaries are carried at cost less provision for impairment.

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 at the balance sheet date.

Pension costs

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme deficit is recognised in full with the movement in the scheme deficit being split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

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

Certain employees of the Company receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined by an external consultant and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

Leases

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

Derivative 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 Significant accounting policies (continued)

Own shares held by ESOP trust

Transactions of the Company-sponsored ESOP trust are treated as being those of the Company and are therefore reflected in the Company's financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

2 Tangible fixed assets

£million	Freehold land and buildings	Plant, equipment and vehicles	Total
Cost	**2.9**	**0.7**	**3.6**
At and 1 January 2009 and 31 December 2009			
Additions	**–**	**0.1**	**0.1**
At 31 December 2010	**2.9**	**0.8**	**3.7**
Depreciation			
At 1 January 2009 and 31 December 2009	0.7	0.6	1.3
Charge for the year	0.1	0.1	0.2
At 31 December 2010	**0.8**	**0.7**	**1.5**
Net book value			
At 31 December 2010	**2.1**	**0.1**	**2.2**
At 31 December 2009	2.2	0.1	2.3

Freehold land and buildings includes freehold land with a carrying value of £0.6 million (2009: £0.6 million).

3 Fixed asset investments

£million	Subsidiary undertakings
Cost	
At January 2009 and 31 December 2009	132.3
Disposals	(2.9)
At 31 December 2010	**129.4**
Provisions for impairment	
At 1 January 2009 and 31 December 2009	–
Charge for year	0.6
At 31 December 2010	**0.6**
Net book value	
At 31 December 2010	**128.8**
At 31 December 2009	132.3

The Company's principal operating subsidiary undertakings and their locations are shown in note 16.

The Company owns 100% of the ordinary share capital or equivalent and 100% of voting rights of all subsidiary undertakings other than Padmini TT Electronics Private Limited which is 51% owned and Rodco Limited, which is non-trading and is 60% owned. Shareholdings are held indirectly for all principal operating subsidiary undertakings.

4 Debtors

£million	2010	2009
Amounts falling due within one year		
Trade debtors	**0.1**	0.1
Amounts owed by subsidiary undertakings	**57.8**	115.1
Prepayments and accrued income	**1.4**	0.5
Corporation tax	**0.2**	3.3
	59.5	119.0

5 Creditors

£million	2010	2009
Amounts falling due within one year		
Borrowings (note 6)	–	0.2
Trade creditors	**0.5**	0.6
Derivatives financial instruments	**0.2**	0.5
Amounts owed to subsidiary undertakings	**3.3**	3.1
Taxation and social security	**0.5**	0.4
Accruals and deferred income	**5.7**	2.9
	10.2	7.7
Amounts falling due after more than one year		
Borrowings (note 6)	–	70.0

6 Borrowings

At 31 December 2010, the Company had no borrowings.

At 31 December 2009, the Company had £70.2 million of sterling denominated borrowings of which £70.0 million was under a committed unsecured multi-currency loan facility which was due to expire in April 2011. These borrowings were repaid in May 2010 as part of the Group's re-financing exercise (see note 22 of the consolidated financial statements for further details). The new borrowings were subsequently drawn down into TTG Investments Ltd, a wholly-owned subsidiary of the Company.

At 31 December 2009 the Company had an interest rate cap applying to $50 million of borrowings at a rate of 4.75%. This cap expired in February 2010. Furthermore, at 31 December 2009 the Company had an interest rate swap fixing the interest rate on $50 million of borrowings to April 2011. Following the re-financing undertaken in May 2010, the fair value of the interest rate swap was written-off to the profit and loss account resulting in an expense of £0.2 million which is included within finance costs.

7 Share capital

£million	2010	2009
Issued called up and fully paid		
155,124,724 (2009: 154,952,795) ordinary shares of 25p each	**38.8**	38.7

During the year the Company issued 171,929 ordinary shares as a result of share options being exercised under the 2004 Approved Plan. The aggregate consideration received was £0.3 million, which was represented by a £0.1 million increase in share capital and £0.2 million increase in share premium.

8 Share-based payments

Details of share based payments are shown in note 19 of the consolidated financial statements.

9 Reserves

£million	Share premium	Profit and loss account
At 1 January 2009	0.2	127.1
Share-based payments	–	(0.2)
Profit for the year	–	10.2
At 1 January 2010	0.2	137.1
New shares issued	0.2	–
Share-based payments	–	0.3
Deferred tax on share-based payments	–	0.7
Dividends paid by the Company	–	(1.2)
Own shares acquired	–	(0.4)
Loss for the year	–	(12.9)
At 31 December 2010	**0.4**	**123.6**

10 Profit for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its profit and loss account for the year. The loss after tax of the Company for the year was £12.9 million (2009: profit of £10.2 million). The auditor's remuneration for audit services is disclosed in note 6 to the consolidated financial statements.

Notes to the Company financial statements

11 Guarantees
At 31 December 2009, the Company guaranteed the bank borrowings of a subsidiary of up to £10 million. The amount guaranteed at 31 December 2010 was £nil.

12 Obligations under operating leases
Obligations under non-cancellable operating leases were as follows:

£million	**Land and buildings**	**Other**	**2010 Total**	Land and buildings	Other	2009 Total
On leases expiring:						
Within one year	**–**	**–**	**–**	0.1	–	0.1
Between two and five years	**0.4**	**–**	**0.4**	0.4	0.1	0.5
	0.4	**–**	**0.4**	0.5	0.1	0.6

13 Pension schemes

Defined benefit scheme:
In October 2010, the Company agreed with the Trustee of the UK pension scheme to apportion the pension scheme liabilities from the participating employers to TT electronics plc. This provides additional security to the scheme whilst providing the Group with greater operational flexibility.

Accordingly the Company has recognised the full UK pension deficit of £38.6 million on the balance sheet as at 31 December 2010, with a corresponding expense going through the profit and loss account as a past service cost in accordance with FRS 17.

The Directors do not consider the carrying value of the deficit recognised as at 31 December 2010 to be significantly different from that in October 2010 when the apportionment was finalised.

Further details of the UK defined benefit pension scheme are shown in note 31 to the consolidated financial statements.

Defined contribution scheme:
The Company operates a Group personal pension plan for employees and pays contributions to administered pension insurance plans. The Company has no further payment obligation once the contributions have been paid. Payments to the defined contribution scheme are charged as an expense as they are incurred. The total contributions charged by the Company in respect of the year ended 31 December 2010 were £216,000 (2009: £151,000).

14 Deferred tax
The deferred tax asset of £11.1 million is made up of an asset of £10.4 million which has been recognised in the profit and loss account in respect of the pension liability, and an asset of £0.7 million which has been recognised in equity in respect of share based payments. No deferred tax assets were recognised in 2009.

At 31 December 2010, the Company had the following items for which no deferred tax assets have been recognised:

- Tax losses £9.8 million (2009: £9.8 million); and
- Property, plant and equipment £0.5 million (2009: £0.5 million).

15 Related party transactions
During 2010, the Company did not have any related party transactions other than with wholly owned subsidiaries. Details of related party transactions for the year ended 31 December 2009 are shown in note 32 to the consolidated financial statements.

16 Principal operating subsidiaries
The principal operating subsidiaries are:

Components
International Resistive Company, USA, Barbados
BI Technologies, USA, UK, Mexico
Optek Technology, USA, Mexico
Semelab Limited
AB Mikroelektronik GmbH, Austria
Welwyn Components Limited
AB Connectors Limited
AB Interconnect, Inc, USA
New Chapel Electronics Limited
AB Electronics (Suzhou) Co Ltd, China

Sensors
AB Elektronik GmbH, Germany
AB Elektronik Sachsen GmbH, Germany
Padmini TT electronics Private Limited, India (51% owned)
TT Automotive Electronics (Suzhou) Co Ltd, China

Integrated Manufacturing Services
TT electronics integrated manufacturing services Limited
TT electronics integrated manufacturing services (Suzhou) Co Ltd, China
TT electronics integrated manufacturing services, Inc, USA
BI Technologies, Malaysia

Secure Power
Ottomotores SA de CV, Mexico
Dale Power Solutions plc
Ottomotores Do Brasil Energia Ltda, Brazil

General Industrial
AEI Compounds Limited
Abtest Limited

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

Five Year Record

£million (unless otherwise stated)	**2010**[1]	2009[1]	2008	2007	2006
Revenue	**571.3**	463.5	584.3	544.9	539.4
Operating profit	**25.2**	6.4	27.0	37.7	36.2
Profit/(loss) before taxation	**20.7**	0.8	21.1	33.3	31.2
Earnings/(loss)	**14.0**	(1.8)	14.3	24.0	21.8
Earnings/(loss) per share (p)	**9.0**	(1.2)	9.2	15.5	14.1
Dividends – paid and proposed	**4.3**	–	5.7	15.6	15.6
Dividend per share – paid and proposed (p)	**2.8**	–	3.69	10.05	10.05
Average number of shares in issue	**155.0**	155.0	155.0	154.9	154.8
Net debt	**9.9**	56.9	113.2	75.0	71.0
Shareholders' funds	**179.1**	155.8	212.9	182.3	157.0

Notes

(1) Results for 2009 and 2010 have been adjusted to exclude discontinued operations.

(2) Operating profit, profit before taxation, earnings and earnings per share are stated before exceptional items.

Shareholder information

Annual General Meeting
The Annual General Meeting will be held on 19 May 2011 at 11.30 am at the offices of Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT.

Results
Announcement of 2011 half year results – late August 2011.

Preliminary announcement of 2011 results – mid March 2012.

Annual report 2011 – to be posted mid April 2012.

Dividends
For the year ending 31 December 2010, the Board has recommended a final dividend of 2.0p per share which will be paid on 9 June 2011 to shareholders on the register on 27 May 2011 (2009: nil). An interim dividend of 0.8p per share was paid on 28 October 2010 (2009: nil).

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 0845 603 7037 between 8.30 am and 4.30 pm, 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.

*Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.

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

Shareholder notes

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