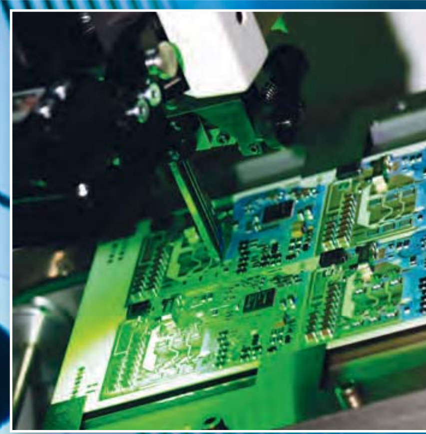
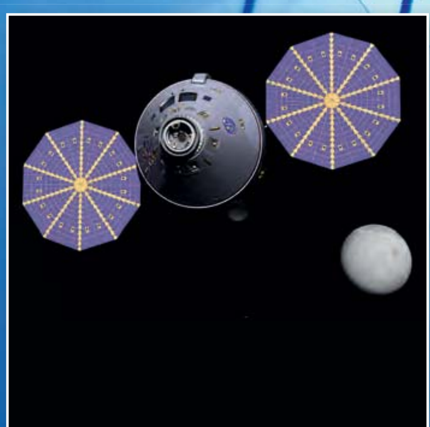
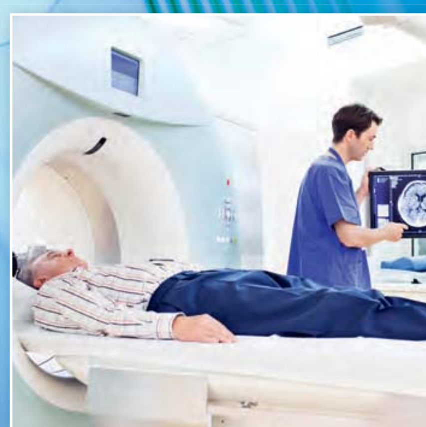
TT electronics

TT electronics plc Annual Report 2012







ACCELERATING GLOBALISATION

IN THIS REPORT

Online report

Please see **www.ttelectronics.com** for additional content including an introductory video with the Group Chief Executive.

www.ttelectronics.com

Cautionary statement on forward-looking statements and related information

This document contains a number of forward-looking statements relating to the Group/Company with respect to, amongst others, the following: financial conditions; results of operations; economic conditions in which the Group/Company operates; the business of the Group/Company; and management plans and objectives. The Group/Company considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Group/Company to differ materially from the information presented in the relevant forward-looking statement. When used in this document the words "estimate", "project", "intend", "aim", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the Group/Company or the management of it, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document. Neither the Group/Company nor any member of the Group's/Company's Board or management undertake any obligation publicly to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, save in respect of any requirement under applicable laws, the Listing Rules, and other regulations.

Directors' report – Overview

INTRODUCTION

DRIVING TT ELECTRONICS

FORWARD

At TT electronics, we combine core competencies in materials science and electronic and mechanical engineering with a deep understanding of our customers' needs to develop innovative products. We support customers in six core markets – Transportation, Industrial, Energy, Medical, Defence and Aerospace – through the design and delivery of high performing electronic components and systems.

In 2012 the Group made further progress in a difficult market environment, improving operating margins to 6.2 per cent and ending the year with net cash of £46.7 million. Following the successful sale of the Secure Power division we are now focused on our core electronics businesses, supplementing our organic development with a small acquisition in December 2012; the Group's first since 2008. In addition, to improve the cost base and our ability to serve our customers, we significantly strengthened our global footprint, including scaling our facilities in Mexico and Romania, acquiring 100 per cent of our joint venture in India and opening a new engineering centre in Bangalore.

During 2013 we will continue to focus where we can create differentiation and value for all stakeholders. The deployment of electronic systems continues to increase in our core markets as our customers' products become more sophisticated, delivering greater functionality, safety and performance. This is leading to increasing opportunities for the Group overall, particularly in the area of sensing and control. We will combine our existing capabilities through the creation of a Sensing and Control business, and focus investment to capture these growth opportunities.

Directors' report – Overview

CHAIRMAN'S STATEMENT

I am pleased to report that TT electronics has delivered a resilient set of results for 2012 with continued progress towards its margin targets against the background of challenging market conditions. Although revenue from continuing operations decreased by 4.1 per cent at constant exchange rates, to £476.9 million (2011: £509.6 million) operating profit before exceptional items increased to £29.4 million (2011: £28.7 million) with the operating profit margin increasing to 6.2 per cent (2011: 5.6 per cent) as a result of our focus on product management and a series of self-help measures to optimise the cost base. Headline earnings per share was 12.6 pence (2011: 11.4 pence), an increase of 10.5 per cent.

During the year we successfully concluded the sale of the Secure Power division, with the disposal of Dale Power Solutions Limited in July and the Ottomotores business in December for a total consideration of £39.6 million. These disposals were in line with the Group's strategy of realising value from businesses that are non-core and mean that TT is now a focused electronics group. We supply leading manufacturers who operate in markets with strong underlying growth drivers where the pace of deployment of complex electronics is being driven by increasing demands in terms of performance and reliability.

We have made significant progress in improving our global operational footprint, with the expansion of the Mexicali facility in Mexico completed ahead of schedule. We established a new facility in Romania during the year and plan to take up additional space within this facility for all of our divisions. We opened a new purpose built facility in India and have opened a Group engineering centre in Bangalore which will be used to increase our engineering capacity and expertise within the Group. Furthermore, in February 2013 we completed the purchase of the minority interest in our Indian business from our commercial joint venture partner, to pursue growth opportunities in India.

In December, we acquired the majority of the UK business and assets of ACW Technology Limited for a consideration of £3.1 million together with the transfer of associated production from ACW's facility in Zhuhai in China to our facility in Suzhou, China. This business provides manufacturing services to leading global customers in the defence, aerospace and industrial markets and strengthens our position as one of the largest aerospace and defence contract electronic manufacturers in the UK. We will continue to look for selective acquisitions to accelerate growth in our target markets and provide complementary technologies.

The Group has further strengthened its cash position with net cash of £46.7 million at the end of 2012 compared to £15.2 million at the end of 2011, despite significant capital investment in the business. The Group's main debt facility has been refinanced at a level of £70.0 million and secures the Group's financing until August 2017, thus facilitating our organic and inorganic expansion plans.

In view of the progress made in 2012 and the Board's continued confidence in the Group's financial position and future prospects, the Board is pleased to recommend a final dividend of 3.5 pence which, when combined with the interim dividend of 1.5 pence, gives a total of 5.0 pence per share for the full year (2011: 4.4 pence per share), representing an increase of 13.6 per cent. This will be paid on 30 May 2013 to shareholders on the register at 17 May 2013.

"In 2012 we delivered improved profitability, strengthened our global presence and invested to ensure we have the right products for the future. We continue to see increasing opportunities in our core markets and we are responding by evolving the business to position the Group for success in 2013 and beyond."

We have created a more focused electronics business. We see increasing opportunities as critical sensing and control electronics become more prevalent in our core markets. To address this we have proven technologies and a reputation for innovation, a global presence, longstanding customer relationships and, most of all, talented people. In order to drive value for all shareholders, we will be combining our existing capabilities to create a Sensing and Control business to capture these opportunities.

SEAN WATSON
Chairman

13 March 2013

Directors' report – Overview

OUR PERFORMANCE IN 2012

HIGHLIGHTS

Resilient performance with operating profit margin increased by 60 bps

Wholly focused electronics business following disposal of Secure Power division

Strong cash generation resulting in closing net cash of £46.7 million

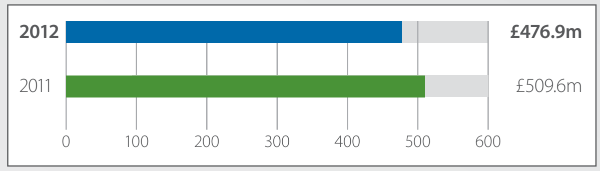
Accelerating globalisation with expansion in Mexico, Romania, India and China

Total dividend for 2012 increased by 13.6 per cent to 5.0 pence per share (2011: 4.4 pence)

Evolving business structure through creation of Sensing and Control business to address increasing market opportunities

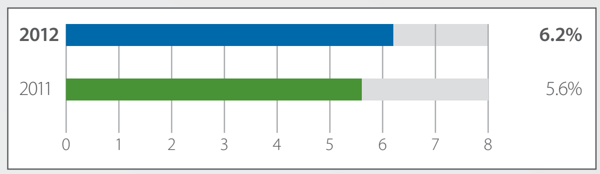
REVENUE[3]

-4.1%[1]



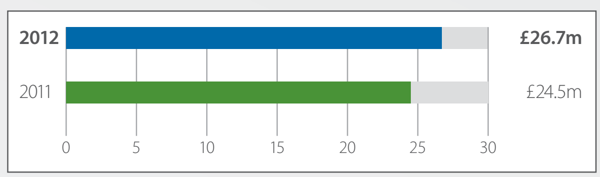
OPERATING PROFIT MARGIN[2,3]

+60 bps



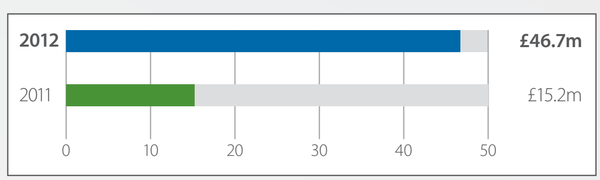
PROFIT BEFORE TAXATION[2,3]

+9.0%



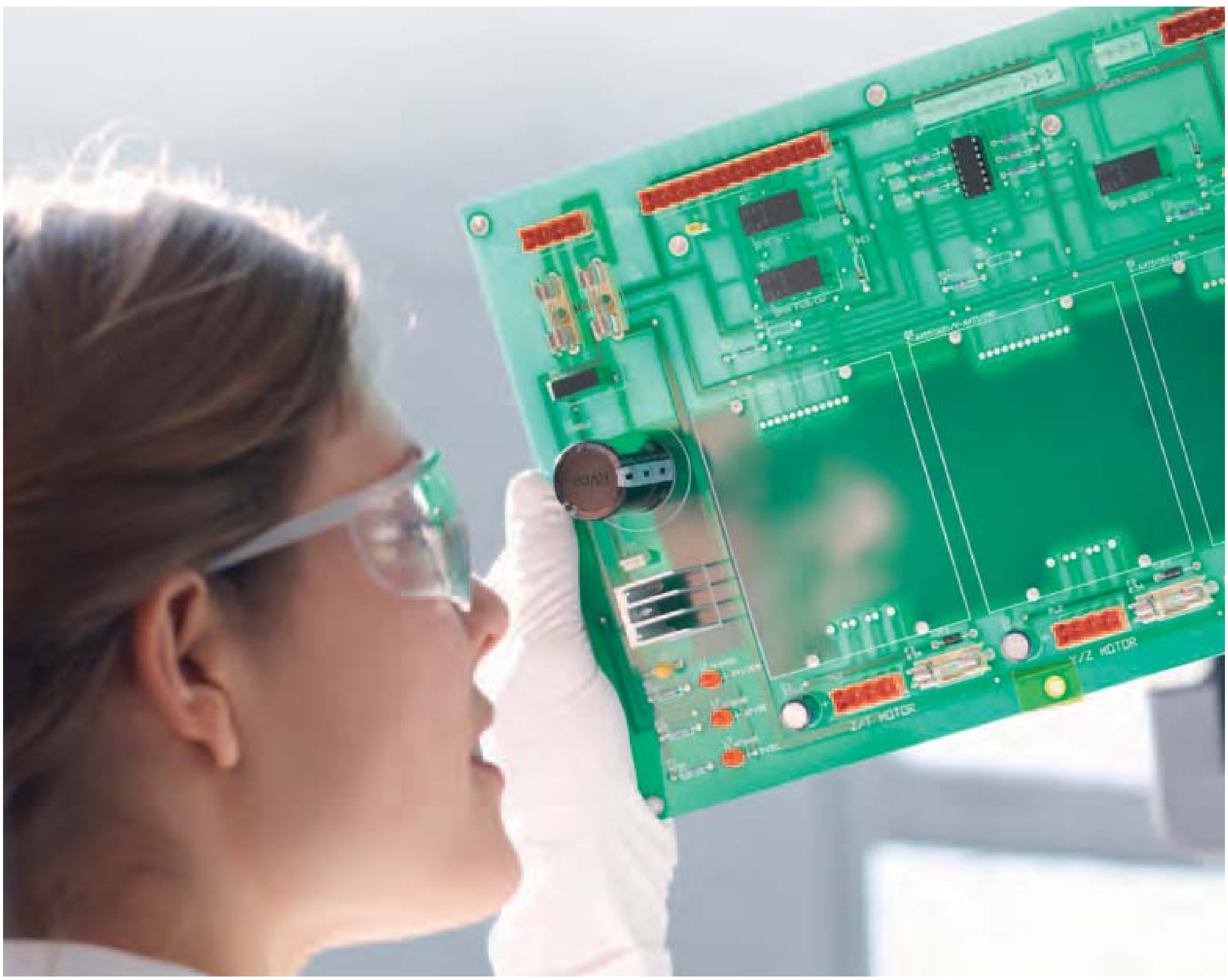
NET CASH

+£31.5m



[1] at constant exchange rates (-6.4% at actual exchange rates)
[2] before exceptional items
[3] continuing operations

OUR PLAN FOR GROWTH



IN THIS SECTION

Directors' report – Our plan for growth

OUR BUSINESS MODEL

1. WHAT OUR CUSTOMERS NEED

Our customers seek to differentiate themselves in competitive markets through the rapid development and manufacture of complex high performing products which rely on critical electronic sub-systems and components. They look to partner with trusted suppliers who understand their challenges, have a reputation for providing innovative and reliable technical solutions and who have the ability to support them globally.

2. HOW WE WORK WITH OUR CUSTOMERS

We have sales teams, located in all major markets, that work with existing and new customers to understand their product development roadmaps. In some cases, these look forward for more than five years. By building close relationships at all levels, we identify where we can apply our engineering expertise to support our customers and help them realise their objectives. We always seek to identify specific requirements that span multiple customers in our target markets.

3. HOW WE DEVELOP SOLUTIONS

Our engineering teams engage early in the design process using their experience to quickly understand the customer's specific requirements, often working alongside their development teams. Using the Group's core technologies and product platforms, our teams identify the best solution to meet or exceed the customer's requirements in terms of performance, reliability, size and cost.

4. HOW WE DELIVER

Our geographical footprint means we are well-placed to provide manufacturing and after sales service and support in most major regions. We have a broad manufacturing presence, with our traditional locations in America, Europe and China being supplemented by the ongoing development of additional lower cost centres of excellence in Mexico, Romania and India.

A SUMMARY OF THE INVESTMENT AND RETURN MODELS

The Sensors and Components divisions create value by applying their electronic, mechanical engineering, materials and process expertise to develop complex electronic systems and components, in turn enabling their customers to deliver higher performing products. The IMS division leverages its global footprint, leading manufacturing capabilities and supply chain expertise to deliver world-class end-to-end manufacturing solutions.

SENSORS AND COMPONENTS

Multiple solutions based on core technologies developed for specific applications

Manufacture and supply over programme life

INVESTMENT | RETURN

Continuous portfolio of core technologies developed through investment in R&D, licensing and acquisition

IMS

Engagement with global customers to develop manufacturing and supply chain solutions

Manufacture and supply over programme life

INVESTMENT | RETURN

Continuous investment in latest manufacturing capabilities and quality standards

OUR VISION

To be the preferred and most trusted provider of performance critical technology solutions to world leading manufacturers, embedding innovation in everything we do.

We are focused on markets where the pace of deployment of complex electronics is driven by increasing demands in terms of performance, regulation and growth and prosperity

DRIVERS

Performance | Regulation | Growth and prosperity

We have a clear strategy to create value for all stakeholders through innovation, focus and globalisation underpinned by our culture

STRATEGY

Focus | Innovation | Globalisation

Culture

We have priorities and plans in place…

EXECUTION

- Targeting higher growth markets
- Increasing customer intimacy
- Differentiation through innovation
- International expansion focused on emerging regions
- Investment in people
- Total business excellence
- Acquisitions

…and a clear set of key performance indicators to measure our progress

KPIs

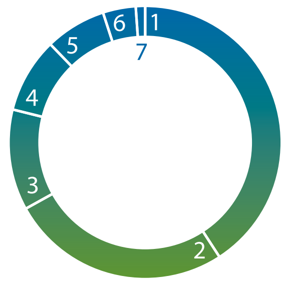
- Organic revenue growth
- Operating profit margin
- EPS growth
- Relative total shareholder return
- Operating cash conversion
- Safety performance
- Employee engagement
- Training and communities

Directors' report – Our plan for growth

OUR MARKETS

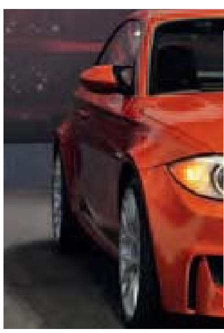
TT supports customers in six core markets: Transportation, Industrial, Energy, Medical, Defence and Aerospace through the design and delivery of high performing electronic components and systems.

GROWTH MARKETS



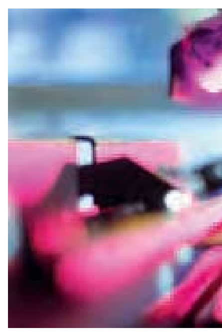
Percentage of 2012 revenue:

1	Passenger car	41%
2	Industrial	26%
3	Defence and aerospace	12%
4	Other transportation	9%
5	Medical	7%
6	Telecom and computer	4%
7	Power generation	1%



TRANSPORTATION

Demand for transportation (from mass transit systems to passenger cars) is growing, particularly in emerging economies. Sophisticated electronics are being used to improve safety and performance and to reduce emissions to meet tighter regulations. Features introduced on premium cars are being deployed on other models and in other transportation segments.



INDUSTRIAL

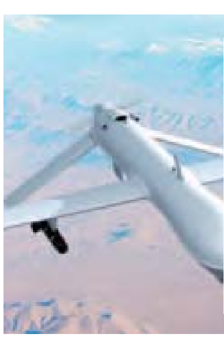
Our focus is on growth segments within the industrial market where the deployment of electronics is being driven by the complexity of the equipment and processes being used. These segments include automation and control for manufacturing and process equipment, and test and measurement.

ENERGY

There is significant investment in new technologies for energy generation to meet increasing demand and tighter environmental regulations, together with the deployment of new smart grid technologies to improve the efficiency of the distribution network and reduce energy consumption.

MEDICAL

Demand for medical equipment and devices is increasing as more individuals and governments are able to afford access to medical care, together with aging populations in many developed countries. Additionally, devices are becoming more sophisticated with increasingly complex electronic content.



DEFENCE

Investment in growth areas including communications networks, unmanned vehicles and other mission critical electronic systems is forecast to continue.

AEROSPACE

Commercial airline production is forecast to grow due to globalisation and the continued development of emerging markets. High-performance electronics are reducing weight and improving efficiencies. Demand for satellites is increasing, driven by the growth of satellite based services.

Directors' report – Our plan for growth

OUR GROWTH DRIVERS

PERFORMANCE

Manufacturers are designing increasingly sophisticated products which rely upon more complex electronic systems to deliver increased functionality, efficiency and power. In addition, high reliability electro-mechanical devices are replacing hydraulics to reduce weight and increase reliability. As new technology becomes available it is rapidly adopted and deployed, thereby fuelling further demand.

REGULATION

Regulation, stemming from safety and environmental concerns, drives change in many of the markets in which we operate. Climate change protocols are the catalyst for investment in new forms of energy generation and its efficient distribution and consumption. Emissions legislation is resulting in significant investment in the transportation and aerospace markets to improve performance, reduce weight and treat exhaust gases.

GROWTH AND PROSPERITY

Rising living standards and increasing disposable income, particularly in certain emerging economies, is driving demand in the energy, medical, transportation and aerospace markets.

HOW WE HAVE RESPONDED

- Greater global demand for healthcare, together with technological advancement and innovation in the medical market, has meant that patient monitoring devices are becoming more sophisticated with increasingly complex electronic content.
- The Components division is working with CAS Medical Systems, Inc to design and manufacture innovative blood sensing oximetry technology that delivers accurate and reliable patient data in a non-invasive manner. This vital information enables clinicians to identify and react to instances of lowered brain oxygen saturation levels before the situation becomes critical.

Oximetry sensing solution

- Tighter regulations and government environmental standards, such as EURO 6, are requiring electronic sensors and controls to operate to higher tolerances and accuracy levels, work reliably for longer durations and be smaller to improve performance and fuel efficiency. These standards and regulations are being replicated in emerging regions such that they become global standards.
- The Sensors division has designed and developed the second generation combined pressure and temperature sensor which will commence production in 2013. Closer tolerances and meeting the new environmental standards were key in developing this sensor, and we have already won a major order with BMW. See page 31 for further details.

Combined temperature and pressure sensor

- Economic growth and rising living standards in China are leading to greater demand for domestic and international air travel, with a projected 230 airports to be made available for commercial use by 2015, and with over 5,000 new aeroplanes forecast from 2012–2031.
- Our IMS division in China, through having the Nadcap (the National Aerospace and Defense Contractors Accreditation Program) aerospace and defence quality standards, has won new business with AVIAGE Systems who provide avionics solutions for the next-generation C919 Chinese-built commercial aeroplane which will commence production in 2013. See page 14 for further details.

Shanghai Pudong Airport

Directors' report – Our plan for growth

OUR STRATEGY

Our strategy is to create value for our stakeholders by delivering innovative solutions to world leading manufacturers in markets with good long-term growth dynamics. We will build upon our existing global footprint to ensure we continue to win new business in all major regions of the world. Our culture and values ensure a consistent set of standards and behaviours throughout the Group.

1 FOCUS

We are focused on the following higher growth markets: transportation, industrial, energy, medical, defence, aerospace and specific segments of the industrial market. Within these markets we are building our position with leading global players through our key account programme.

PROGRESS

In 2012 we focused on strengthening our position in our target markets and these represented 96% of total revenue from continuing operations. The acquisition of ACW strengthened the Group's presence in the aerospace, defence and industrial markets and, following the sale of our Secure Power division, the Group now comprises three electronics businesses.

2 INNOVATION

We create high value differentiated solutions for challenging applications built upon our broad platform technologies, engineering expertise and our reputation in markets which value reliability. Our "trusted partner" status with major customers leads to early involvement in their development programmes and provides us with visibility of their future technology roadmaps.

PROGRESS

During the year, we invested in research and development to bring new products to market, increase our capabilities and improve efficiencies. In addition to servicing the local market, the new development centre in Bangalore will provide lower cost support to existing development centres in Europe, allowing their experienced engineers to focus on more complex tasks. In Texas, we invested in a new development laboratory to focus on next generation resistor technologies. In the UK, our Cambridge-based research team developed a new "SIMSPAD" sensor capable of accurately sensing targets through non-ferrous metal, thereby avoiding the need to create an aperture for a traditional sensor with the associated cost and engineering complexity.

3 GLOBALISATION

The Group is well positioned to benefit from globalisation with sales and engineering teams and leading international and domestic customers in all major regions. We are able to support our customers from manufacturing and service locations in the Americas, Europe and Asia.

PROGRESS

During the year, we expanded our footprint in Mexico, Romania, India and China improving both our cost base and our ability to support our customers in the US, Europe and Asia (see page 12 for further details).

4 CULTURE

We have a clear set of values that provide a framework within which we expect all of our employees to operate. We put the customer at the heart of everything we do, supported by teamwork, innovation and a passion for excellence; all underpinned by a commitment to invest in our employees and to act with integrity at all times.

PROGRESS

In 2012, we launched our management development programme "Aspire" to ensure our managers have the skills that they need to lead the organisation. The programme included over 500 managers attending two-day face-to-face workshops at each major location. In addition, we conducted our second all-employee engagement survey and continued with our global recognition programme "Inspire" (see pages 23 and 40 for further details).

Directors' report – Our plan for growth

OUR PLANS FOR 2013

For additional information please see

www.ttelectronics.com

Consistent with our strategy, we will continue to develop the Group's position in target markets, building on current customer relationships and winning new accounts where we have a compelling offering. The deployment of more complex electronic systems in our core segments is driving increased demand for sensors and control electronics. We will combine our existing capabilities in these areas, through the creation of a Sensing and Control business, and focus investment to capture these growth opportunities.

Automotive, industrial, aerospace and medical products are becoming more sophisticated in response to demand for greater functionality, safety and performance. The increased use of complex electronic systems leads to the greater deployment of sensors and a requirement for intelligence and control. To build on our strengths in this area we intend to combine our sensor capabilities (which currently span our Sensors and Components divisions) with our complementary skills in the area of power management and control. The revised structure will facilitate a unified approach to key customers and better utilisation of sales resources. Together, the Sensing and Control business (which would have represented approximately 55 per cent of Group revenue in 2012) has the potential to deliver significant growth.

We will continue to invest in operational excellence scaling the Group's manufacturing footprint in its lower cost locations, which will lead to an increasing proportion of production being undertaken in Mexico, India, China and Romania. In addition, we are adding capacity in our new engineering centre in Bangalore to supplement our traditional core engineering teams in Germany, Austria and the US, thereby enabling us to address many more opportunities.

We will continue to look for selective acquisitions to accelerate the Group's growth in its target markets and provide complementary technologies.

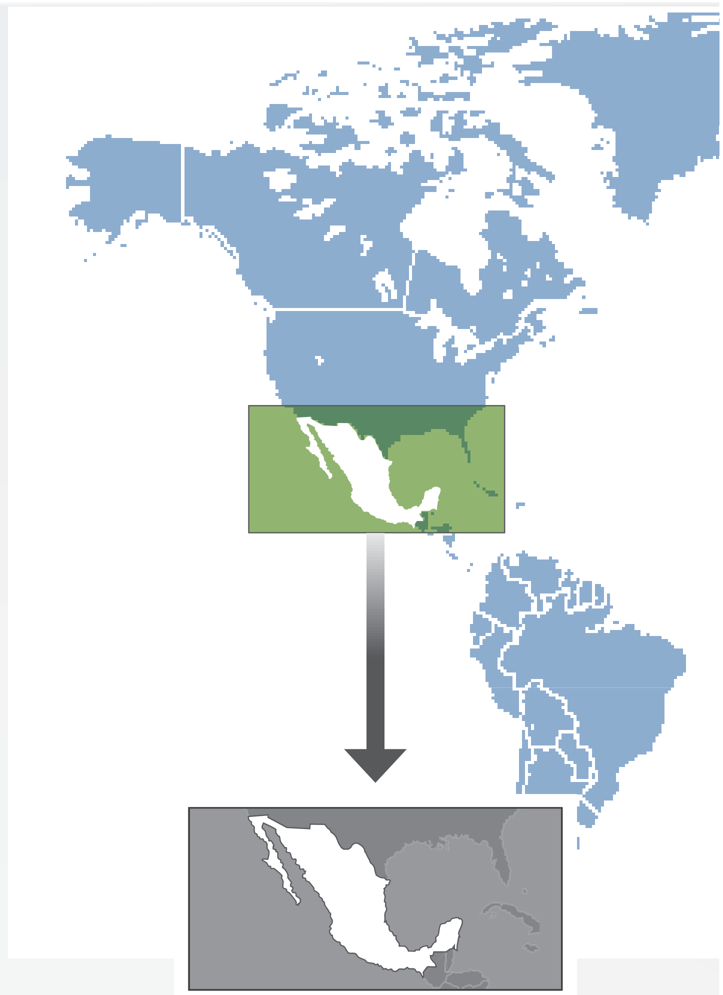
Directors' report – Our plan for growth

OUR BUSINESS

WELL POSITIONED

TT is well positioned globally to meet our customers' needs with sales, engineering and manufacturing in all major regions. We operate in 14 countries, have 20 manufacturing facilities and employ over 5,300 people.

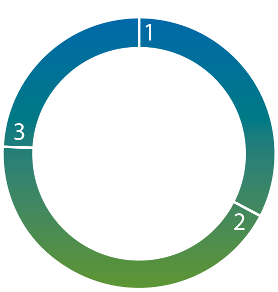
Over the last 12 months, we have strengthened and developed our position in a number of key locations.



MEXICO

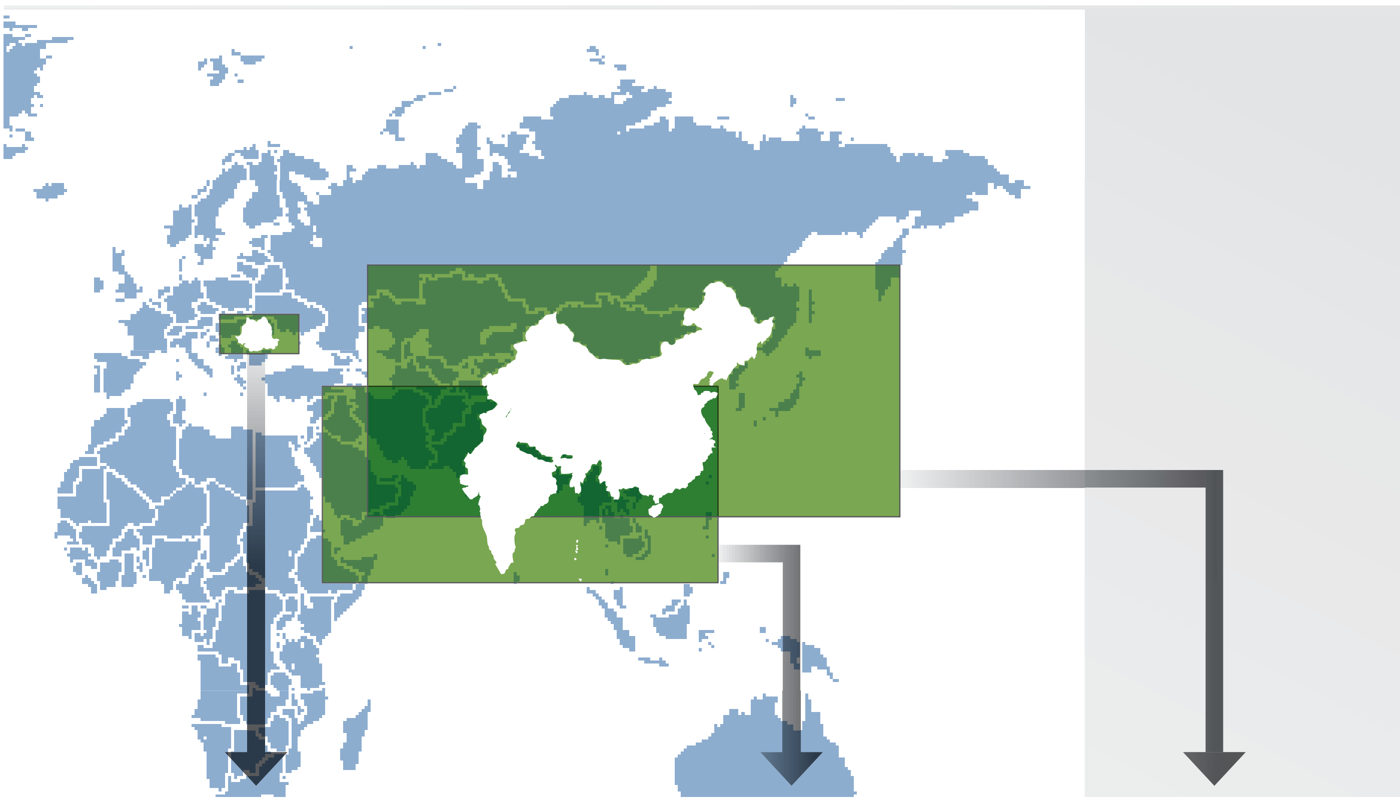
We have two facilities in Mexico: Mexicali and Juarez. We have significantly expanded the Mexicali site and have taken additional space as production lines were relocated from other sites, including Boone, North Carolina. Additional space has also been taken in Juarez by the Sensors division to serve the North and South American markets. Total headcount in Mexico is 796 with manufacturing floor space of approximately 220,000 square feet.

OUR PRESENCE



1	**The Americas**	
	Headcount	1,771
2	**Europe, Middle East and Africa**	
	Headcount	2,307
3	**Asia**	
	Headcount	1,313

For additional information please see
www.ttelectronics.com



ROMANIA

We opened a facility in Timisoara in 2011 and have significantly ramped up operations during 2012, with all three of our divisions planning to utilise this facility. Total headcount in Romania is 71, with manufacturing floor space of 49,000 square feet.

INDIA

We moved to a new purpose built facility in Manesar in the fourth quarter of 2012 and increased our manufacturing capacity from 5,000 square feet to 35,000 square feet. We have also opened an engineering centre in Bangalore. Total headcount in India is 100.

CHINA

Our campus facility in Suzhou, established in 2000, is used by all three of our divisions and comprises manufacturing floor space of approximately 325,000 square feet. Total headcount is 693.

Directors' report – Our plan for growth

STRATEGIC CASE STUDY: FOCUS

WORLD CLASS QUALITY STANDARDS

Our IMS facility in Suzhou was the first electronics manufacturing services provider in China, and one of only five in the world, to receive both Nadcap accreditations: AC7120 for printed circuit board assembly and AC7121 for cable and harness assembly. Nadcap is a prestigious qualification from the global cooperative accreditation programme for aerospace and defence engineering. It is testament to the high quality standards that the site in Suzhou has to offer and has enabled the IMS facility to be selected for the AVIAGE SIVB project.

For additional information please see
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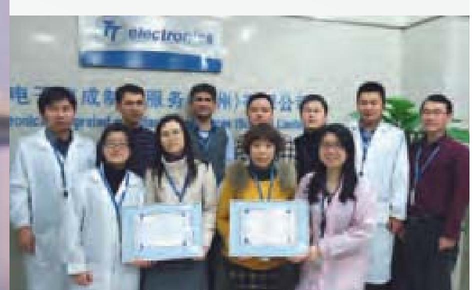
CONTRACT WINNING ACCREDITATIONS

Achieving Nadcap accreditation enabled our Suzhou facility to be selected to provide manufacturing services for the System Integrated Verification Bench ("SIVB") for AVIAGE Systems, a joint venture between General Electric and the Aviation Industry Corporation of China, which provides fully integrated, open architecture avionics solutions for the next generation C919 aircraft as well as other commercial aircraft programmes.



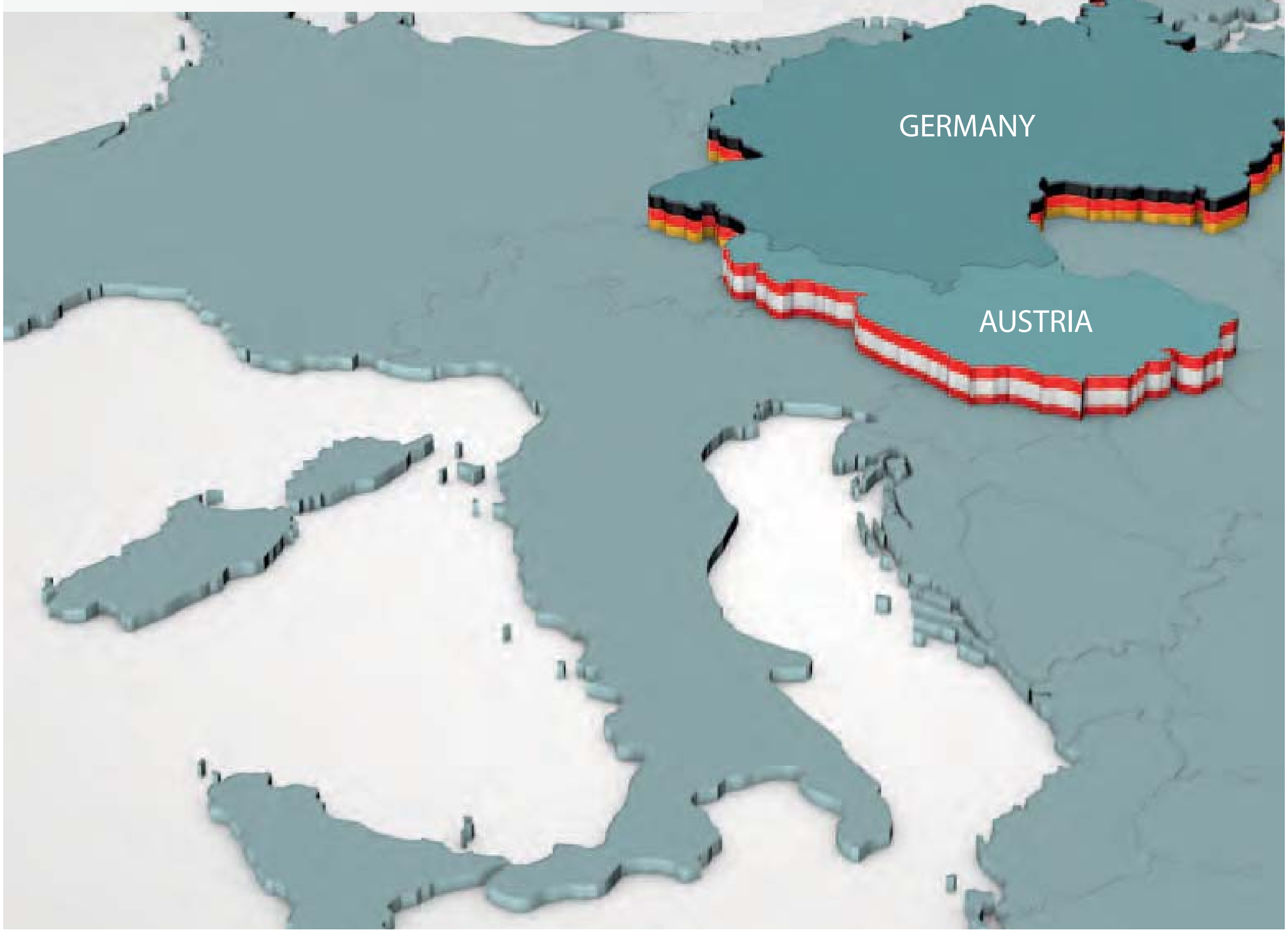
The Nadcap team
The Suzhou team who worked on and successfully obtained the Nadcap accreditations for the facility.

Directors' report – Our plan for growth

STRATEGIC CASE STUDY: GLOBALISATION

MANUFACTURING EXCELLENCE

Following an extensive review of sites available in Europe, the facility in Timisoara, Romania was selected as the Group's best cost manufacturing centre for Europe. The area has a strong history in local electronics assembly with high calibre technical talent readily available. The facility is well designed, with opportunities for future expansion, and provides excellent logistical access to the existing European road network, thereby enabling TT to serve its customers in Western Europe.



For additional information please see

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SHARED FACILITY

The Components division commenced production in the Romanian facility in 2012 with further product lines having subsequently been transferred to the site. We have also commenced the transfer of certain Sensors division product lines from Germany to Romania and are considering further expansion as all of our divisions seek to utilise this location. The new facility will enhance the profitability of certain core products.

The opening ceremony

The opening of the new manufacturing facility in Timisoara, Romania in October 2012.

The facility will initially manufacture a range of advanced power modules, microelectronic devices and sensors for industrial and transportation applications.

Directors' report – Our plan for growth

STRATEGIC CASE STUDY: INNOVATION AND CULTURE

ENGINEERING EXPERTISE

Following an extensive selection process, we opened a new dedicated Group engineering centre in Bangalore, India, utilising a hybrid global in-house centre. The engineering centre will be used to increase the expertise and capacity of engineering knowledge within the Group and to drive growth through innovation.

For additional information please see
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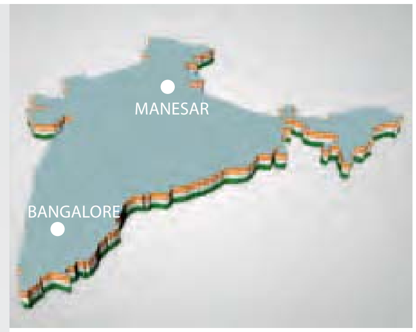
ENGINEERING CENTRE BANGALORE

Building on our existing presence for Sensors in Manesar, we have chosen Bangalore as the location for the engineering centre. The city has ready access to a pool of talented electronic and mechanical engineers and is known as the engineering and technology hub of India.

Engineers from the centre are visiting our operations in Germany and Austria to undertake training and learn about TT's engineering processes. This will enable them to return to India with the knowledge to support product, process and technological development initiatives across the Group.

The addition of this facility complements our existing engineering expertise and further increases the global spread of our technical capabilities.



Directors' report – Our plan for growth

FOCUSING ON EXECUTION

Our priorities reflect our strategy and are designed to strengthen the Group. These priorities translate the strategy into deliverable plans within each division.

1 TARGETING HIGHER GROWTH MARKETS

All of our internal resources are focused on markets with good long-term growth drivers.

Product roadmaps are in place to ensure we develop the right technologies.

Our sales teams have clear objectives to serve our customers, supported by manufacturing and customer service.

OUR ACTIONS

- The truck and off-road market is a focus for the Sensors division with the deployment of sensors being driven by environmental standards. The proportion of the division's revenue from this market increased to 20 per cent in 2012 (2011: 16 per cent).
- The use of electronic systems continues to increase in the field of commercial aviation. In 2012 the Components division further strengthened its relationship with a major engine manufacturer supplying increasing volumes of a high performance engine control unit for existing programmes, whilst securing new design wins for use on engines to be deployed in the aviation market and in other segments.
- The IMS division targets the premium industrial, defence, aerospace and medical sectors, working with customers who require manufacturing partners that offer world class manufacturing capabilities, quality and flexibility. The division's revenue from these segments in 2012 grew by around 7 per cent on a constant currency basis and comprised 88 per cent of total sales.

For more information go to pages 8 – 9

2 INCREASING CUSTOMER INTIMACY

We aim to build long-term relationships with our customers undertaking regular business reviews with them and constantly monitoring our quality, responsiveness and on time delivery performance. We invest in key account management, train our sales and applications engineering teams and constantly seek to make it easier for our customers to do business with us.

OUR ACTIONS

- We continued to work closely with our key customers to understand their technology roadmaps. These inform new product development, ensuring we have the correct portfolio for the future.
- We strengthened our Sensors division sales organisations in India and America to address identified growth opportunities.
- We invested in IT systems to improve our efficiency and the speed of response to our customers, measuring overall service delivery performance to validate progress.

3 INTERNATIONAL EXPANSION

We are investing in our capabilities in lower cost regions to underpin our plans for growth, improve our cost base and better support global customers.

OUR ACTIONS

- We significantly developed our presence and capabilities in Mexico and Romania, improving our cost base and providing additional capacity to support new programmes.
- In India we relocated our sensors business to a new larger facility, reflecting its growth in 2012 and future potential, and opened an engineering centre in Bangalore.

For more information go to pages 12 – 13

4 DIFFERENTIATION THROUGH INNOVATION

We are focused on delivering products that our customers value, requiring a deep understanding of their needs, a commitment to the development of new technologies and clear long-term product development roadmaps.

OUR ACTIONS

- We increased the resource in the product management function in the Components division and introduced new tools to allow us to better manage our product portfolio.
- We established a dedicated research and development laboratory to further the pace of resistor technology developments. Adjacent to our volume production lines it will assist rapid technology transfer from proof of concept through to volume production, allowing us to respond quickly to customer demand.
- We introduced a number of new products including: (i) a next generation intelligent power module combining higher power with increased control; (ii) a universal ASIC for cam and crank shaft applications that delivers higher reliability and greater accuracy in a smaller footprint; and (iii) a highly accurate and reliable "thermocouple" temperature sensor capable of operating at extremely high temperatures in excess of 1,000°C.

5 INVESTMENT IN PEOPLE

Our people are key to our success. Developing the skills and capabilities of our talent base is a strategic imperative to deliver performance, innovation and sustainable growth.

OUR ACTIONS

- We launched the Group's first multilingual management development programme – "Aspire". As part of this programme over 500 supervisors and managers attended two-day management development programmes, complementing additional learning tools.
- Our divisions and local businesses focus on skills development pertinent to their needs, creating bespoke people learning and development programmes.
- During the year, all our facilities within the IMS division achieved the ISO 18001 accreditation.

For more information go to pages 40 – 41

6 TOTAL BUSINESS EXCELLENCE

Improving our operational performance in all areas is a key objective for the Group. We are doing this by embedding standard "best practices" across all sites, implementing Lean manufacturing techniques and driving continuous improvement programmes.

OUR ACTIONS

- More than 500 employees were trained in Lean and Six Sigma methodologies.
- We deployed Lean Six Sigma champions to drive a change in the culture of the organisation.
- Active projects delivered generated efficiency gains. These included: the application of the Six Sigma DMAIC process (Define, Measure, Analyse, Improve, Control) to increase Overall Equipment Effectiveness, Total Productive Maintenance (to increase equipment productivity); SMED (fast machine set-up); Poka Yoke (to ensure zero defect manufacturing); the increasing deployment of more efficient cellular manufacturing; and the application of Design for Six Sigma methodology to improve the way we develop new processes and products.

7 ACQUISITIONS

We seek to acquire technologies and businesses that have a good fit with our strategy. These businesses will be technology leaders serving our target markets, will ideally accelerate our geographic growth, and will share our culture and values.

OUR ACTIONS

- We have a clear set of criteria against which we assess potential acquisition targets. During 2012 we improved the quality of our opportunity pipeline, although it is not yet fully mature.
- We engaged with a number of targets and completed the Group's first acquisition since 2008, strengthening our position in key markets including commercial aerospace and defence with the acquisition of the majority of the business of ACW Technology Limited.
- We acquired the minority shareholding in our Indian joint venture following the considerable progress made developing its presence in the sensor market and recognising the opportunities to grow the Group's business in India.

Directors' report – Our plan for growth

OUR KPIs

We use a number of financial and non-financial key performance indicators (KPIs), set in 2009, to measure our performance

FINANCIAL KPIs[1]

ORGANIC REVENUE GROWTH

2012	**-4.3%**
2011	8.9%
2010	23.5%

Target – each year, to 2014

Mid to high single digits

Definition

Organic revenue growth measures the change in revenue in the current year compared with the prior year from continuing Group operations. The effects 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 decreased in 2012 reflecting the challenging macro-environment during the year (see page 26 for further details).

EARNINGS PER SHARE (EPS) GROWTH

2012	**12.6p**
2011	11.4p
2010	9.0p

Target

Year on year growth of 3% in excess of RPI

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 details on page 57.

Performance

EPS from continuing operations increased from 11.4 pence in 2011 to 12.6 pence in 2012. The growth in EPS of 10.5 per cent was significantly ahead of the target. The EPS numbers shown above for 2010 include earnings from the Secure Power division.

(Note – 2011 EPS as previously published: 13.3 pence, which included the Secure Power division).

OPERATING CASH CONVERSION

2012	**70%**
2011	121%
2010	169%

Target – each year, to 2012

100%

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 not met in 2012 due to longer supply chains on the business globally, the slowdown in activity levels in the second half of the year, the build up of inventory in the Sensors division to facilitate the move of production lines to Romania and higher levels of capital investment. Total cash conversion over the three years was 117 per cent.

RELATIVE TOTAL SHAREHOLDER RETURN (TSR)

2012	**3rd Quartile**
2011	3rd Quartile
2010	1st Quartile

Target – in medium term

Above median performance against the FTSE SmallCap (excluding investment trusts)

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 details on page 57.

Performance

The Group's TSR for 2012 was 3.6 per cent compared to the median of the comparator group of 18.8 per cent.

[1]2010 financial KPI data is as previously published in the 2011 Annual Report

Overview
Our plan for growth
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FINANCIAL KPIs CONTINUED

OPERATING PROFIT MARGIN

2012	**6.2%**
2011	5.6%
2010	4.5%
Target – in medium term	
Group: 8-10%	

2012	**6.5%**
2011	6.1%
2010	4.6%
Target – in medium term	
Components: 10%	

2012	**5.7%**
2011	5.3%
2010	2.7%
Target – in longer term	
Sensors: 10%	

2012	**6.0%**
2011	5.1%
2010	4.7%
Target – in medium term	
IMS: 6-8%	

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 IMS division reaching its target margin of 6–8 per cent.

(Note – 2011 Group operating margin as previously disclosed: 5.8 per cent, which included the Secure Power division).

NON-FINANCIAL KPIs[2]

SAFETY PERFORMANCE

2012	**3.6**
2011	5.1
2010	8.5
Target – in medium term	
Lower than UK manufacturing benchmark, 2012: 5.4	

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.

Performance
We are committed to targeting zero occupational injuries. The injury rate improved further during the year, with a 30 per cent reduction in 2012. This rate is significantly better than the UK manufacturing benchmark.

EMPLOYEE ENGAGEMENT

2012	**4.28**
2011	4.31
2010	4.28
Target – in medium term	
Achieve UK mid-size manufacturing benchmark, 2012: 4.81	

Definition
We use our employee survey to measure how our employees feel about working in TT using a scale of 1 (low) to 7 (high) against eight factors. We benchmark the results against mid-size UK manufacturing companies as surveyed by Best Companies Ltd.

Performance
The response rate from this year's survey was 58 per cent, compared to an industry benchmark of 48.2 per cent.

The results show a slight drop in our overall engagement score against the backdrop of numerous challenges in the business during 2012. We will share the results of the latest survey with our employees and develop plans to deliver improvements.

TALENT AND DEVELOPMENT

Understanding our current capabilities and future requirements and identifying talent within the Group is essential to sustaining our growth. We made further improvements to our talent management and succession planning process throughout 2012. It has been designed to promote from within through career development, building on potential talent across all divisions and geographies. In 2012, we continued to support our future leaders through individually tailored mentoring and development plans and maintained our graduate and apprenticeship programmes at selected sites. During 2013 we will continue to encourage our employees to use the increasing range of training programmes on offer.

The 2010 engagement survey highlighted the need to increase our engagement with the communities in which we operate. A wide range of activities took place during the year as set out on pages 40 and 41.

[2] 2011 and 2010 non-financial KPI data is as previously published in the 2011 Annual Report

OUR PROGRESS
IN 2012

IN THIS SECTION

Directors' report – Our progress in 2012

OPERATING REVIEW

GERAINT ANDERSON
Group Chief Executive
13 March 2013

SHATISH DASANI
Group Finance Director
13 March 2013

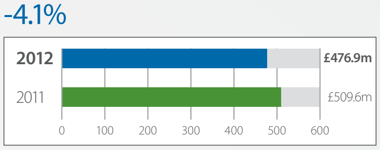
A YEAR OF STRATEGIC PROGRESS

"The business performed well against the backdrop of a challenging market environment reporting an improvement in profitability as we made further progress towards our stated margin targets.

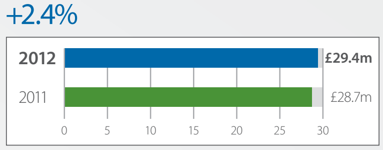
We are now a wholly focused electronics business and we further expanded our global footprint and capacity in strategic regions, enhancing our ability to serve key customers.

In 2013, we will combine our existing capabilities to create a Sensing and Control business and focus investment to capture increasing market opportunities and drive value for shareholders."

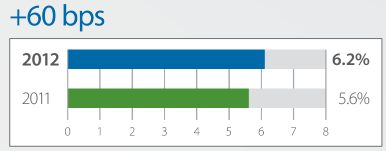
REVENUE*
-4.1%



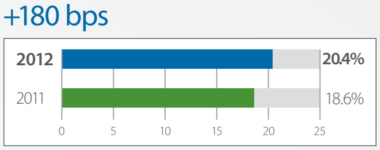
OPERATING PROFIT**
+2.4%



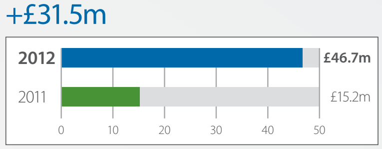
OPERATING PROFIT MARGIN**
+60 bps



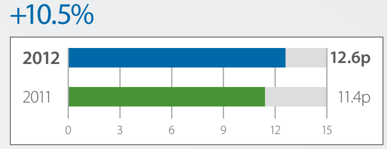
RETURN ON CAPITAL EMPLOYED
+180 bps



NET CASH
+£31.5m



EARNINGS PER SHARE**
+10.5%



* at constant exchange rates
** before exceptional items

Directors' report – Our progress in 2012

OPERATING REVIEW CONTINUED

GROUP OVERVIEW

Against the background of a challenging market environment, the business has performed well and we made further progress towards our margin targets with an improvement in profitability that was underpinned by self-help measures to optimise the cost base, whilst at the same time balancing the medium and long-term goals of the Group. Further operational improvements were also delivered contributing to the improvement in the operating margin. As a result of these actions, we are creating a sustainable foundation for future growth.

We successfully concluded the sale of the Secure Power division during the year, with the disposal of Dale Power Solutions Limited in July for £10.6 million and the Ottomotores business in December for £29.0 million. These disposals are in line with our strategy to realise value from businesses that are non-core. In accordance with accounting standards, the business is shown as discontinued for all of 2012 and the comparatives for 2011 have been restated. The Group is now a focused electronics group enabling us to supply leading manufacturers in the defence, aerospace, medical, transportation, energy and industrial markets where the pace of deployment of electronics is being driven by increasing demands in terms of performance and reliability.

We have continued to make progress in developing our position in markets which present the greatest opportunity and have strengthened our relationship with key customers in these target markets, as evidenced by new business wins with leading customers (see pages 9, 14 and 15 and 29 to 33 for examples). The passenger car market remains important for us, and following the sale of the Secure Power division is the largest segment for the Group, representing 41 per cent of revenue due to continuing strong demand from BMW, VW and Daimler for passenger cars in Russia, Asia and North America. Good growth was seen in the Sensors division in China as we won business with local indigenous car manufacturers, but this growth was offset by lower global demand from certain of the smaller European automotive OEMs. We will continue to look at opportunities to balance our exposure to the passenger car market by targeting other key markets, organic growth projects and through acquisitions.

We continue to improve our international operational footprint in order to increase profitability and better support our global business by aligning our presence with our key customers. The closure of the Boone, North Carolina facility and the associated expansion of the Mexicali facility in Mexico were completed ahead of schedule, delivering the annualised economic benefits earlier than planned. Additionally, within the Components division we commenced manufacturing in the facility in Romania during the year and have also commenced the transfer of certain production lines in the Sensors division from Germany to Romania. We plan to take up additional space within the Romania facility as all of our divisions seek to utilise this new opportunity. We have expanded our floor space in emerging regions by 51 per cent and headcount by 19 per cent over the last three years, reflecting their strategic importance to the Group.

We made significant progress within our business in India during the year, moving to a new purpose built facility and further strengthening the management team. We also opened a new Group engineering centre in Bangalore which will be used to increase the expertise and capacity of engineering knowledge within the Group. In February 2013, we completed the purchase of the minority interest in our Indian business from our commercial joint venture partner, reflecting the opportunities to grow the business in India.

In December, we completed the acquisition of the majority of the UK business and assets of ACW Technology Limited for a consideration of £3.1 million. We also agreed the transfer of associated production from ACW's facility in Zhuhai in China to our facility in Suzhou, China. The acquired business provides manufacturing services to leading global customers in the defence, aerospace and industrial markets and strengthens our position as one of the largest aerospace and defence CEMs in the UK.

In August, we completed the re-financing of our existing debt facility, which was due to be repaid in May 2013, with a new five year committed revolving credit facility of £70 million and an incremental accordion facility of £42 million. These new facilities secure the Group's financing until August 2017, thus facilitating our organic and inorganic expansion plans. Net cash at 31 December 2012 was £46.7 million compared with £15.2 million at 31 December 2011. The increase in net cash is due mainly to operating cash generation from the business together with the proceeds from the Secure Power division disposal, offset in part by higher levels of capital investment.

MARKET ENVIRONMENT

After an encouraging start to the year, the global macro-economic environment quickly deteriorated toward the end of the second quarter of 2012 with all of our divisions seeing signs of slowdown in their end markets. A general nervousness and lack of confidence arising from economic concerns in the US, in Europe as a result of the Eurozone uncertainty, and fears of a soft landing in China led to pressure being put on inventory levels throughout the supply chain.

REVENUE

Revenue from continuing operations decreased by 6.4 per cent to £476.9 million (2011: £509.6 million), reflecting the difficult market conditions and the planned exit from certain lower margin projects. After adjusting for an adverse foreign exchange impact of £11.8 million, the underlying decrease in revenue was 4.1 per cent.

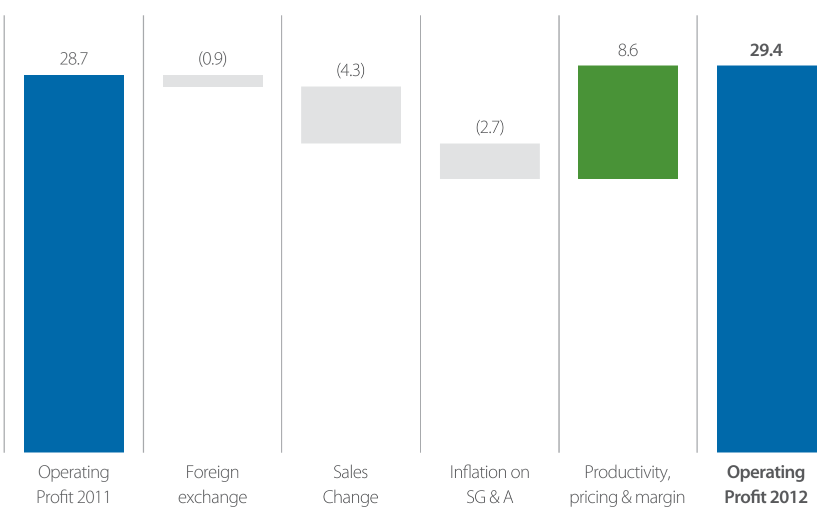
OPERATING PROFIT

The overall Group operating profit margin improved from 5.6 per cent in 2011 to 6.2 per cent despite the challenging market environment. Our focus on product management, productivity improvements from our operational excellence programmes and investment to improve the underlying cost base resulted in an operating profit before exceptional items from continuing operations of £29.4 million, an increase of £0.7 million compared to 2011. All of the divisions delivered higher operating profit margins compared to 2011 despite the difficult market conditions and the challenges of managing the short-term cost base whilst making investments for the medium and long term in response to customer demand. Furthermore, the IMS division has achieved the 6 to 8 per cent operating profit margin target that was previously set. The adverse impact of foreign exchange variations on the translation of operating profit was £0.9 million, primarily due to a strengthening of Sterling against the euro by 6.1 per cent.

GROUP OUTLOOK

We remain focused on providing critical technology to markets with strong fundamental growth drivers where the deployment of complex electronics is increasing. This will drive demand for our solutions even if the macro-economic environment remains uncertain. Going forward, the focus of the Group around Sensing and Control will enable us to work closer with key global customers and take maximum advantage of these opportunities. The changes being made to the Group's operational footprint will help position us to meet these requirements with increasing efficiency. We anticipate that the Group will make further progress during the year in positioning the business for future growth and improved margins.

OPERATING PROFIT[1] BRIDGE 2011 TO 2012



[1] Before exceptional items

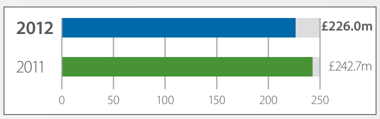
Directors' report – Our progress in 2012

OPERATING REVIEW CONTINUED

COMPONENTS

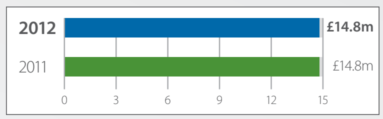
REVENUE*

-5.6%



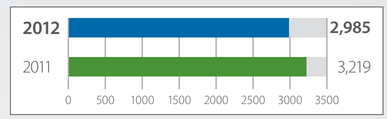
OPERATING PROFIT**

+0.0%



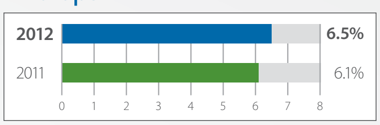
YEAR END HEADCOUNT

-7.3%



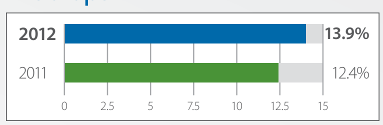
OPERATING PROFIT MARGIN**

+40 bps



RETURN ON CAPITAL EMPLOYED

+150 bps



* At constant exchange rates

** Before exceptional items

COMPONENTS

The Components division is focused on creating value by delivering innovative electronic solutions with increased functionality, efficiency, and control, coupled with best in class service and support worldwide. The division provides engineered component solutions which include fixed and variable resistor products, optoelectronics, power modules and control circuitry for multiple applications. With facilities in North America, Europe and Asia, a sales presence in all major markets and application engineers strategically located around the world, the division is well positioned to serve customers in all regions.

STRATEGY

The division targets markets with underlying growth drivers where we can create value based upon our technology and engineering expertise. We work closely with our customers, anticipating their needs, turning ideas and technology into differentiated solutions. The division is focused on increasing the pace of new product introduction through improvements in product management and delivering wide ranging operational improvements, making it easier for customers to do business with the division and thereby contributing to improved value creation.

PROGRESS

In 2012, we continued to focus on margin progression and responded rapidly to mitigate the impact of a challenging market in the second half of the year. We took actions to balance pressures on input prices, raw materials and overheads. These measures included temporarily reducing capacity where needed and expanding production in better cost regions. Furthermore, the operations team delivered improvements in productivity, efficiency, quality and on-time delivery through Lean manufacturing principles and Six Sigma initiatives which additionally contributed to the improvement in the operating margins.

We continued to drive new product introductions and the division won more new business in 2012 than in 2011. As a result of our focus on key accounts, product management, and targeting markets with strong underlying growth drivers, the division performed better than a number of competitors, thereby gaining market share in key segments. We achieved good customer wins in our target markets with customers such as CAS Medical Systems Inc (see page 9 for more details) and KTM (see page 29 for more details) and also grew our business and market share with a number of key global distributors.

For additional information please see
www.ttelectronics.com

KTM MOTORCYCLES

The Components division is working with KTM, a manufacturer of off road motorcycles to develop a power module for their new electric motorcycle. KTM's primary requirement was for weight reduction and miniaturisation which would ultimately lead to improvements in the performance and efficiency of the motorbike. Through our strong relationship with KTM and our engineering expertise, we were able to jointly design and develop the new power module and started to manufacture and supply this in 2012.

SATELLITE SOLUTIONS

The Components division is working with a major international key account customer, supplying new hybrid products to a number of commercial aerospace, satellite projects and other space programmes. The requirement for the components to operate reliably for programme lives in excess of ten years in extreme operating environments provided significant engineering challenges which were overcome by our engineers partnering with the customer's counterparts to develop innovative solutions.

The development of the product portfolio remains a critical focus to ensure that our product development plans accurately align with emerging customer needs. As part of this process, we have implemented a project portfolio management tool which provides a standardised framework for effectively managing and prioritising the portfolio of development projects, the market opportunity and the associated spend. This tool will facilitate the enhanced control and reporting of new product introduction and monitor the subsequent return on engineering investments.

The closure of the Boone, North Carolina facility and the associated significant expansion of the Mexicali facility in Mexico were completed several months ahead of schedule. Over the last two years, the capacity at the Mexicali facility has increased by 67 per cent to 100,000 square feet. Mexicali now provides the division with a North American low cost centre of excellence which is part of the Group's strategy to align its footprint with key customers and to improve competitiveness and margins. Additionally, in 2012, we commenced manufacturing in the Group's East European facility in Romania. Across the Group, we are planning to take additional space within the Romania campus for further transfers.

Our focus on innovation remains key to meeting the demands of increasingly sophisticated and complex electronic systems. To support our customers' needs, we are establishing a dedicated research and development laboratory in our Corpus Christi, Texas facility to further the pace of development of resistor technologies. The primary objective of this laboratory is the development, testing and commercialisation of next-generation resistor technologies that will provide additional value to our customers. The development laboratory will assist with rapid technology transfer from proof of concept to volume production, allowing us to respond quickly to customer needs. This state of the art facility will start to deliver financial benefits in 2014.

The division's principal competitors include Bourns, Koa, Semikron and Vishay.

MARKETS

After a positive start in early 2012, the trading environment quickly deteriorated toward the end of Q2 2012. This difficult market environment was characterised by lower levels of confidence in the industry, with customers reducing their inventory levels and lead times.

PERFORMANCE

Although underlying revenue for the year decreased by 5.6 per cent to £226.0 million (excluding an adverse foreign exchange impact of 1.3 per cent), the division performed better than its main competitors and gained market share. Operating profit for the year was flat at £14.8 million, giving an operating profit margin of 6.5 per cent (2011: 6.1 per cent).

OUTLOOK

Although the first few weeks of 2013 showed a notable improvement in order intake over 2012, market conditions are not expected to improve significantly until later in the year. The business remains focused on improving margins through new product introductions, pursuing sales growth through the key account programme, and remaining responsive to customers' needs. At the same time, we anticipate an improvement in operational performance through sharing of Lean best practices, expanding our productivity improvement programmes, and a further ramp up of activity at our Mexicali and Romania facilities.

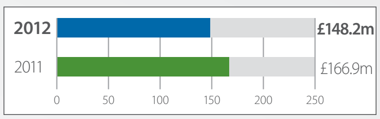
Directors' report – Our progress in 2012

OPERATING REVIEW CONTINUED

SENSORS

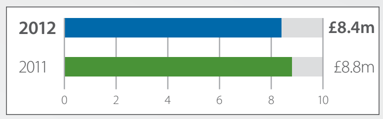
REVENUE*

-4.9%



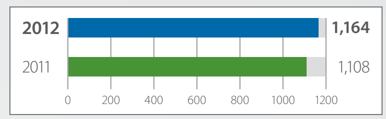
OPERATING PROFIT**

-4.5%



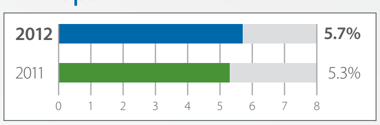
YEAR END HEADCOUNT

+5.1%



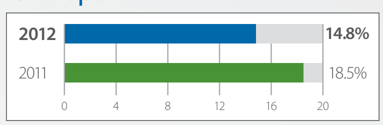
OPERATING PROFIT MARGIN**

+40 bps



RETURN ON CAPITAL EMPLOYED

-370 bps



* At constant exchange rates

** Before exceptional items

SENSORS

The division provides sensing solutions, including speed, position, temperature, accelerator pedal and pressure sensors, for critical applications which require high levels of expertise, precision and reliability, often operating in extremely harsh environments. We are focused primarily on the transportation and industrial markets where our ability to meet these requirements helps our customers to compete and win.
The division's principal operations are in Germany, India, China and Mexico and are supported by additional engineering and development teams in the UK.

STRATEGY

We provide sensors that form the heart of critical systems which improve safety, performance and emissions, helping our customers to be more competitive and address increasing levels of regulation and legislation. The division's ability to deliver high performance micro electronic and mechanical solutions that work reliably first time, every time, in extremely harsh environments is a key differentiator. We are focused on sectors which are growing, that value our expertise and where the deployment of sensing technology is increasing to address new challenges. Target markets include transportation, industrial and medical. We are building long-term strategic partnerships with leading companies in each of these markets whilst investing in the further development of our geographic footprint to support them in all major regions. The division is embedding a culture of continuous improvement and using total business excellence to ensure common core processes and standards across all of its operations.

PROGRESS

After an encouraging start to the year, with the division performing broadly in line with expectations, we experienced a very different business environment in the second half of the year. Whilst the core business remained strong, we were impacted by lower demand from specific customers with sales to certain of the smaller European OEMs and some truck customers being impacted by the uncertain economic environment, particularly in Europe.

The management team was quick to respond to the market environment and a number of actions were taken to maintain profitability, whilst at the same time balancing our medium- and long-term goals. The division's global footprint, reputation and strong customer contacts have resulted in significant new business both identified and won. We are investing in resources and capital to take advantage of these opportunities which will move into volume production in 2014 and beyond.

We have continued to develop the division's global footprint into emerging regions as part of our globalisation strategy, and have commenced the transfer of certain production lines from Germany to the Group's facility in Romania. Production from these lines is due to commence in early 2013. We also commenced production in our new manufacturing centre in Mexico during the third quarter of 2012.

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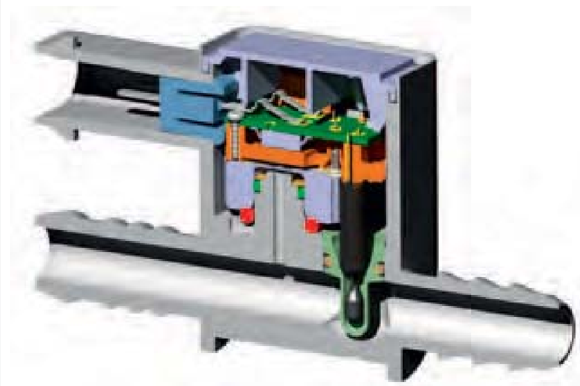
BMW, GERMANY

A new combined pressure and temperature sensor has been designed and developed at our facility in Klingenberg, Germany. The sensor is now stable up to operating temperatures of 150°C (previously 125°C) offering best in class competitive performance. This enhanced performance, coupled with a cost reduction of more than 20 per cent, gives us the opportunity to make our customers more competitive and win more business globally. This sensor has been developed in conjunction with BMW and will be used on both the four and six cylinder diesel engines of the BMW car range with production due to commence in 2013.



Significant progress has been made in India during the year. We transferred production to a new facility in the fourth quarter of 2012 and increased our capacity from 5,000 square feet to over 30,000 square feet. We have also strengthened our global management team with the appointment of an India-based VP of Global Product Management and a new Finance Director for the Indian business. Furthermore, we opened a new Group engineering centre in Bangalore, which will be used to increase the expertise and capacity of engineering knowledge within the Group. In February 2013, we completed the purchase of the minority interest in our Indian business from our commercial joint venture partner, reflecting the opportunities to grow the business in India.

The division is continuing to see operating efficiencies from the Lean manufacturing programmes being put in place in all of our facilities. We are also increasing the skills of our workforce through training programmes including putting record numbers of people through Six Sigma yellow, green and black belt programmes. We are continuing to implement common processes, equipment and systems in all of our facilities so that we operate to one global standard. In addition, we have moved talented individuals to our emerging regions, reflecting our growing manufacturing presence in these locations and their strategic importance to the business.

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

MARKETS

Market demand for the top three German automotive OEMs grew during 2012 as the premium car market outperformed other sectors, due to continuing strong demand for passenger cars in Russia, Asia and North America. However, global demand for certain of the smaller European automotive OEMs significantly decreased. There was also a contraction in the truck market which was particularly impacted by the uncertain economic environment within Europe.

PERFORMANCE

Underlying revenue for the year decreased by 4.9 per cent to £148.2 million, excluding a foreign exchange impact of 6.3 per cent, primarily as a result of lower demand from the smaller European OEMs and truck customers. Although operating profit decreased to £8.4 million (after allowing for a £1.1 million adverse foreign exchange impact), as a result of the mitigating actions taken the operating profit margin increased to 5.7 per cent (2011: £8.8 million operating profit, 5.3 per cent operating profit margin).

OUTLOOK

We will continue to consolidate our position during 2013, with the further transfer of production to Romania and bringing on stream new lines in Mexico and China. We will work closely with our major OEM customers to support them in different parts of the world and anticipate growth from new contract wins with these customers as we go into 2014.

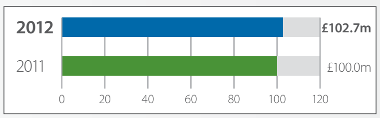
Directors' report – Our progress in 2012

OPERATING REVIEW CONTINUED

IMS

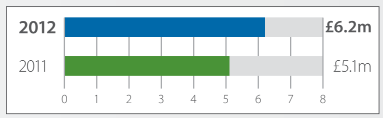
REVENUE*

+1.0%



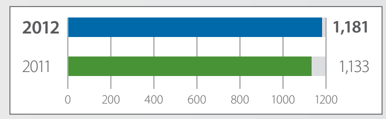
OPERATING PROFIT**

+21.6%



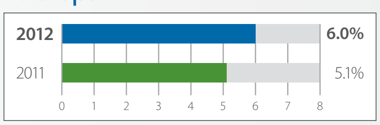
YEAR END HEADCOUNT

+4.2%



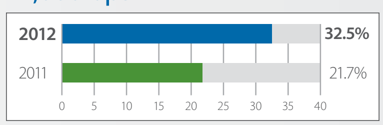
OPERATING PROFIT MARGIN**

+90 bps



RETURN ON CAPITAL EMPLOYED

+1,080 bps



* At constant exchange rates

** Before exceptional items

IMS

The division draws on its design engineering capabilities, flexibility and world-class facilities to provide high quality electronic manufacturing support to customers in the defence and aerospace, medical and premium industrial sectors. The business has broad capabilities, ranging from board assembly to full systems integration. This suite of end-to-end solutions is focused exclusively on high mix, low volume business.

The division supports its customers with a global footprint and local support from manufacturing operations in China, USA, UK and Malaysia.

STRATEGY

The division's 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. Our global presence, combined with local engineering and customer service, is a key differentiator against our regional competitors. Furthermore, these core tactics are executed exclusively within a high mix, low volume model of production designed for flexibility and agility.

PROGRESS

The division has performed well in a difficult market environment. Whilst the underlying base business has decreased and projects have come to the end of their life, this reduction has been more than offset by new business resulting from the investments made in 2011 to strengthen the sales team and our focus on winning key strategic customers in target markets, which underpins our global strategy.

The division's sales teams have performed very well and we were particularly pleased to secure a significant new global aerospace and defence customer, Cobham plc, which will bring significant business for multiple locations (see page 33 for further detail).

Quality and the safety of our employees remain a key focus for us, and all four of our facilities now have OHAS 18001 certification. We have also seen the benefits of the Nadcap aerospace and defence quality accreditation for cable and harness assemblies (AC7121) that was obtained in our China facility in 2012. This certification, in addition to the Nadcap accreditation for printed circuit board assemblies (AC7120) which the facility was awarded in 2011, represents the division's commitment to the aerospace industry on a global scale. These accreditations have enabled us to win strategic new business in the Chinese commercial aerospace market (see pages 14 and 15 for further detail). These quality standards are a key differentiator for us, as we were the first CEM company in China and only the fifth worldwide to receive both printed circuit board assembly and cable and harness certification from Nadcap. These accreditations are in the process of being replicated at our other sites.

In December, we completed the acquisition of the majority of the UK business and assets of ACW Technology Limited for a consideration of £3.1 million. We also agreed the transfer of associated production from ACW's facility in Zhuhai in China to our facility in Suzhou, China. The acquired business provides manufacturing services to leading global customers in the defence, aerospace and industrial markets, strengthens our position as one of the largest aerospace and

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COBHAM PLC

By maintaining an ongoing relationship and continuous dialogue with Cobham plc, in 2012 the IMS division secured a significant new business win in the defence, aerospace and homeland security markets. The Cobham business in question was seeking a rapid outsourcing solution in order to create growth capacity internally. The IMS division rapidly responded to Cobham's needs and we quickly established a transition team to manage the customer's requirements and expectations, thereby supporting Cobham's growth ambitions and preserving continuity of the supply chain at a critical time. Our relationship with Cobham plc has now extended to an engagement with three Cobham locations and has the potential to bring further business to a number of our sites.

Cobham's COFDM RF links, as built by the IMS division, delivered stunning live HD video directly from the pilot's perspective in the Red Bull Air Race.

defence CEMs in the UK, and is expected to generate approximately £25 million of sales in 2013. Exceptional costs of £0.5 million have been charged in 2012 and a further £1.4 million charge is anticipated for 2013 relating to the restructuring of the ACW business post-acquisition.

Our customers are continuing to benefit from our global manufacturing footprint and operating profit margin improved in 2012 as we continued to diversify our customer base into our key target markets.

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

MARKETS

The market environment in 2012 across all of our key target markets has been particularly challenging. Our focus on expanding our customer base globally utilising our manufacturing footprint, and expanding our value proposition through technology, services and corporate responsibility meant that the division had some success in these difficult market conditions.

PERFORMANCE

Excluding the acquisition of the trade and assets of ACW Technology Limited in December 2012, underlying revenue for the year grew by 1.0 per cent excluding a foreign exchange benefit of 1.7 per cent. The division performed well given the challenging global market environment with continued progress being made with our key global strategic customers. This led to an improvement in operating profit before exceptional items to £6.2 million, delivering an operating profit margin of 6.0 per cent (2011: £5.1 million operating profit, 5.1 per cent operating profit margin) which is within the 6 to 8 per cent target range for the division.

OUTLOOK

We anticipate making further progress during 2013 and will complete the integration of the ACW business, further strengthening our competitive position in key markets.

Directors' report – Our progress in 2012

FINANCIAL REVIEW

MEASURING OUR PERFORMANCE

The Group has a clear strategy to improve performance and deliver shareholder value. Financial progress is monitored using the financial key performance indicators detailed on pages 22 and 23. Organic revenue from continuing operations contracted by 4.1 per cent, compared to the target of mid to high single digit growth. Despite the challenging macro-economic environment, the Group drove further progress towards the operating profit margin target of 8 to 10 per cent, achieving an operating profit margin from continuing operations of 6.2 per cent in 2012 compared to 5.6 per cent in 2011. All three divisions made progress towards their respective targets, with the IMS division reaching its target margin of 6 to 8 per cent. Headline earnings per share increased by 10.5 per cent to 12.6 pence, significantly outperforming the target of year on year growth of 3 per cent in excess of RPI. Operating cashflow conversion from continuing operations was 70 per cent, compared to the target of 100 per cent. Total cash conversion over the three years was 117 per cent. Relative total shareholder return was in the third quartile for the year, as was the case in 2011.

DISCONTINUED OPERATIONS

In executing our strategy to focus on higher growth markets, the Group disposed of the Secure Power division during 2012. Total consideration received comprised £39.6 million in cash before costs (£43.9 million including costs and nebt debt disposed of), and is subject to a final adjustment once the completion balance sheet for the Ottomotores business has been agreed. In line with accounting standards, the business is shown as discontinued for all of 2012 and the comparatives for 2011 have been restated. Discontinued operations for 2011 also include AEI Compounds Limited which was sold in July 2011.

ACQUISITIONS

In December 2012 the Group acquired the majority of the UK business and assets of ACW Technology Limited for consideration of £3.1 million. The acquired business provides manufacturing services to leading global customers in the defence, aerospace and industrial markets and strengthens our position as one of the largest aerospace and defence CEMs in the UK. Exceptional costs of £0.5 million have been charged in 2012 and a further £1.4 million charge is anticipated for 2013 relating to the restructuring of the ACW business post-acquisition.

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. An exceptional charge of £3.3 million from continuing operations has been recognised during 2012, compared with an exceptional credit of £2.3 million for 2011. The make-up is shown below:

£million	**2012**	2011
Continuing operations		
Reduction in UK pension liabilities	**–**	7.5
Restructuring costs	**(3.2)**	(5.2)
Negative goodwill on business acquisition	**0.3**	–
Acquisition costs	**(0.4)**	–
Total	**(3.3)**	2.3

The exceptional items relate to:

- Restructuring costs of £3.2 million associated with:
  - – the closure of the Components operation in Boone, North Carolina of £2.1 million;
  - – the transfer of certain production lines from the Sensors division facilities to Romania of £0.2 million;
  - – redundancy costs of £0.4 million; and
  - – costs associated with the post-acquisition restructuring of the ACW Technology business of £0.5 million.
- Negative goodwill arising on the acquisition of the trade and assets of ACW Technology Limited of £0.3 million; and
- £0.4 million of acquisition-related legal and professional fees.

NET FINANCE COSTS

Net finance costs for 2012 were £2.7 million compared to £4.2 million in 2011. Included within this amount is £0.5 million (2011: £1.0 million) in respect of the net interest expense arising on pension scheme liabilities, £0.8 million (2011: £0.6 million) in respect of the amortisation of loan arrangement fees and £0.7 million (2011: £0.7 million) in respect of the interest expense on the minority put/call option relating to a third party minority interest in one of the Group's subsidiaries.

TAXATION

The tax charge from continuing operations for the year was £6.2 million (2011: £5.3 million), which represents an effective tax rate of 26.2 per cent on continuing operations excluding exceptional items (2011: 28.2 per cent). The charge arises from the profits generated in overseas countries, in particular the USA, China and India. There is a minimal level of tax payable in the UK and Germany due to the availability of tax losses.

EARNINGS PER SHARE AND DIVIDENDS

Headline earnings per share from continuing operations were 12.6 pence, an increase of 10.5 per cent from 2011. Basic earnings per share from continuing operations were 11.0 pence (2011: 13.9 pence).

The Directors recommend a final dividend of 3.5 pence which together with the interim dividend of 1.5 pence gives a total dividend for the year of 5.0 pence per share (2011: 4.4 pence), an increase of 13.6 per cent. This is in line with the Group's policy of increasing dividends progressively whilst maintaining cover of at least two times underlying earnings per share. The final dividend will be paid on 30 May 2013 to shareholders on the register at 17 May 2013.

PENSIONS

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 the UK and USA schemes are closed to future accrual.

The assets and liabilities of the Group's defined benefit schemes are summarised below:

£million	2012	2011
Fair value of assets	**382.5**	373.4
Liabilities	**(416.2)**	(405.5)
Deficit – UK scheme	**(33.7)**	(32.1)
Overseas schemes	**(3.1)**	(3.4)
Total Group deficit	**(36.8)**	(35.5)

The triennial valuation of the UK scheme as at April 2010 showed a deficit of £39.8 million. A funding agreement is in place with the Trustee fixing deficit contributions at £3.7 million in 2012 and increasing by £0.2 million each year to £4.5 million in 2016. In addition, the Company has agreed to set aside £1.0 million per year for the next three years to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme. The next triennial valuation of the UK scheme will take place in April 2013.

In the year ending 31 December 2013, revisions to IAS 19 'Employee benefits' will become effective leading to a change in the calculation of net interest expense on the pension scheme deficit and also the charging of administration expenses to operating profit rather than as a deduction to the expected return on pension scheme assets. Had the revisions to IAS 19 been adopted during the year, profit before tax would have decreased by £1.4 million.

CASH FLOW, BORROWINGS AND FACILITIES

During 2012 the Group further strengthened its cash position with net cash of £46.7 million at 31 December 2012 compared to £15.2 million at the end of 2011. The increase in net cash is mainly due to operating cash generation from the business together with the proceeds from the disposal of the Secure Power division, offset in part by higher levels of capital investment.

£million (unless otherwise stated)	2012	2011
Underlying operating cash flow*	**45.4**	61.6
Working capital (outflow)/ improvement*	**(3.5)**	10.7
Capital expenditure (including software)	**(20.0)**	(21.6)
Exceptional costs	**(4.1)**	(2.2)
Proceeds from disposal of businesses (net of expenses)	**37.5**	8.3
Net cash	**46.7**	15.2
Stock turns (times)*	**5.6**	6.6
Debtor days*	**39**	38
Creditor days*	**48**	39

* Amounts relate to continuing operations excluding the ACW acquisition and Secure Power division disposal

Underlying operating cash flow from continuing operations for 2012 was £45.4 million, compared with £61.6 million in 2011. The cash outflow from working capital was £3.5 million, compared to a cash inflow of £10.7 million in 2011 and was largely attributable to the build-up of inventory within the Sensors division as certain production lines are in the process of being transferred from Germany to Romania. This inventory build-up contributed £3.3 million of the increase in working capital.

Trade working capital represented 14 per cent of sales at 31 December 2012 (2011: 14 per cent). Working capital balances continued to be actively monitored and managed, with debtor days at a healthy 39 days and creditor days improving by 9 days to 48 days. Stock turns decreased from 6.6 turns to 5.6 turns due to the build-up of inventory within the Sensors division (as discussed above), longer supply chains on the business globally and the slowdown in activity levels in the second half of the year.

Conversion of operating profit to operating cash flow after capital expenditure from continuing operations was 70 per cent, due to higher capital investment and the increase in inventory mentioned above.

Exceptional cash restructuring costs of £4.1 million were incurred, together with a £3.7 million special payment to the UK pension fund.

In August 2012, the Group agreed a new five year committed revolving credit facility of £70 million and a further incremental accordion facility of £42 million with a club of four banks comprising HSBC, The Royal Bank of Scotland, Santander UK and Barclays Bank, as well as two separate bi-lateral agreements with Fifth Third Bank and Comerica Bank, both within the USA.

At 31 December 2012, £8.4 million of the revolving credit facility was drawn down and the accordion facility was undrawn. The undrawn facilities, together with the Group's net cash position, give the Group £61.6 million of committed undrawn facilities and £192.4 million of total cash and facilities available to fund organic and inorganic growth.

The main financial covenants in the new facility restrict net debt to below 2.75 times EBITDA before exceptional items. In addition, EBITDA before exceptional items is required to cover net finance charges by 4.0 times. The covenants are tested half-yearly on a rolling 12 month basis and were satisfied comfortably at 31 December 2012:

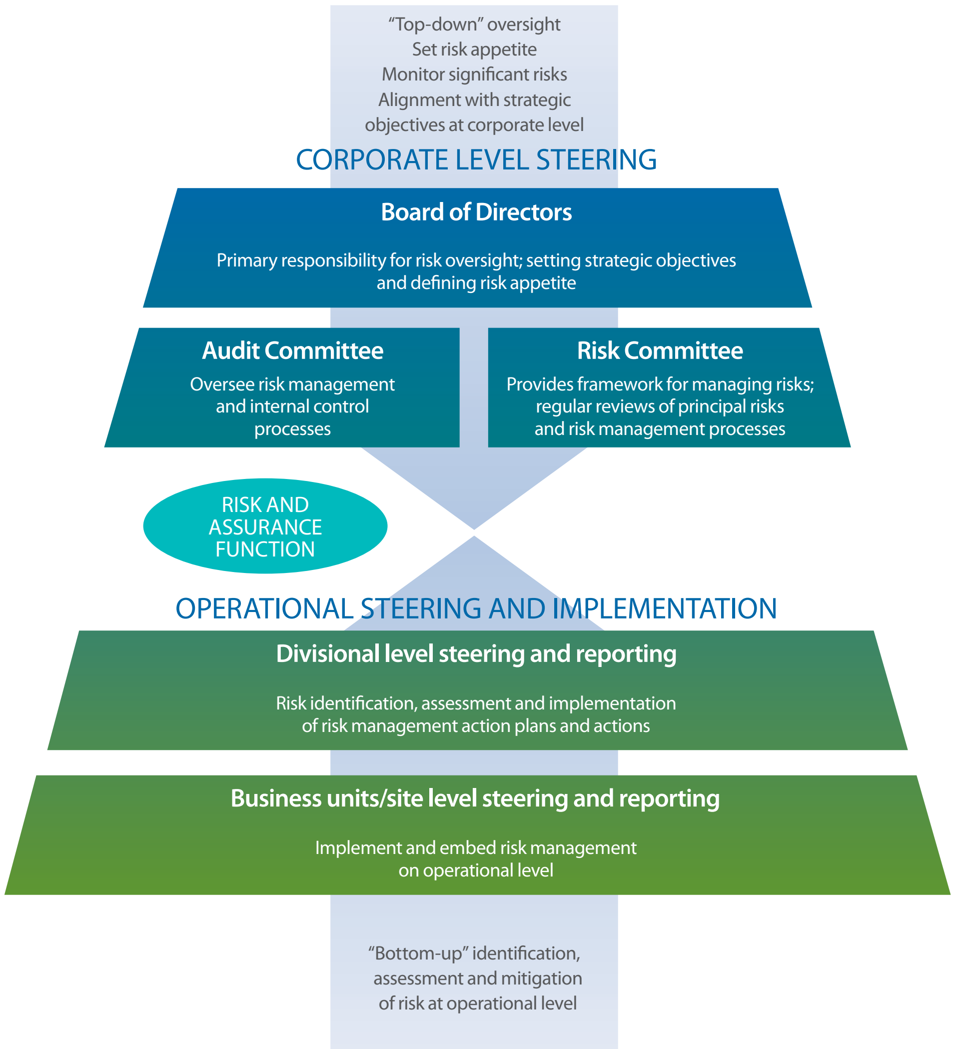
	Covenant	December 2012[1]
Net debt/EBITDA before exceptional items	< 2.75	(0.9)
EBITDA before exceptional items/net finance charges	> 4.00	22.7

[1] based on EBITDA and net finance charges for the year ended 31 December 2012

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.

Directors' report – Our progress in 2012

PRINCIPAL RISKS AND RISK MANAGEMENT PROCESS



RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for risk management and internal controls, supported by the Audit Committee and the Risk Committee. The Board defines risk appetite and monitors the management of significant risks to ensure that the nature and extent of those risks taken by the Company are aligned with overall goals and strategic objectives. The Risk Committee supports the Board and the Audit Committee in monitoring the exposure through regular reviews and has been delegated the responsibility for reviewing the effectiveness of risk management processes and controls. The Risk and Assurance function assists the Risk Committee in defining improvements to the overall risk management framework and evaluating the design and operating effectiveness of the framework as well as risk mitigation strategies implemented by management.

Risk management processes and internal control procedures are established within business practices across all levels of the organisation. Risk identification, assessment and mitigation are performed both "Bottom-up", with more detailed assessment at operational level, as well as through "Top-down" assessment of strategic and market risk at the executive management and Board level.

It is recognised that risk management and internal controls can only provide reasonable and not absolute protection against risk. Risk appetite is not static and will be reassessed on an ongoing basis to ensure it continues to be aligned with goals and strategy.

RISK MANAGEMENT DEVELOPMENTS DURING 2012

Management have focused developments during the year on three main areas:

Developments during 2012 include:	Benefits for our stakeholders:
1. CLARIFIED ROLES AND RESPONSIBILITIES THROUGHOUT THE GOVERNANCE STRUCTURE	
Defined risk management roles and responsibilities in more detail on all levels of the organisation. Strengthened the Risk Committee by ensuring more cross functional representation and involvement from executive management at Group as well as divisional level.	Clarified roles and responsibilities throughout the organisation to assist all stakeholders in understanding their role in identifying, assessing, managing and reporting risks. This enriches the organisation's ability to analyse risks, prioritise resource and respond to opportunities as it pursues strategic objectives.
2. REFRESHED THE COMPANY WIDE RISK FRAMEWORK INCLUDING MORE FORMALISED RISK QUANTIFICATION AND APPETITE	
Implemented a more structured approach for risk identification and assessment, incorporating a "top-down" and "bottom-up" perspective on risk. Executive management, in partnership with the Risk and Assurance function, identified and assessed "top-down" risks during a series of meetings to better understand risk exposure and appetite. This was supported by a similar, more comprehensive, "Bottom-up" process at divisional and operational level.	Supports the Board, Audit Committee and executive management in establishing a mechanism for understanding risk exposure and defining the risk appetite as well as linking significant risks to company strategy and objectives.
3. TRAINING AND COMMUNICATION	
The roll-out of the refreshed risk management framework was supported by a training and communication programme across the Group. The training programme consisted of face-to-face and remote virtual training, including case studies, best practice examples, step-by-step manuals, templates, etc.	Successful training and communication help build a culture and ability to further embed processes and procedures throughout the organisation. A more deeply embedded risk management culture supports long-term value creation for all stakeholders.

Our management plan aims to continue building on 2012 developments during 2013 to:

– Embed the refreshed risk culture throughout the Group

– Continue to improve understanding of risk quantification and appetite

– Implement more robust risk management for strategic projects

All of this should lead to better informed decisions, actions, and fewer surprises, thereby improving the likelihood of the business achieving goals and strategic objectives.

RISK PROFILE

A number of risks were identified and assessed through risk identification and assessment processes during 2012. Executive management, the Risk Committee and the Board of Directors performed further analysis to prioritise these risks, with a focus on principal risks which posed the highest current risk to achieving company objectives. Risks assessed as higher priority were consolidated onto a "Risk Heat Map" and are monitored more closely by executive management, the Risk Committee and the Board of Directors. Whilst these principal "top risks" represent a significant portion of the Group's overall risk profile, executive management and the Risk Committee continue to monitor the entire universe of risks to identify new or emerging risks as well as any changes in risk exposure.

The "top principal risks" shown overleaf are not presented in any order of priority. The risks have been linked to our strategic objectives of:

1 Focus

2 Innovation

3 Globalisation

4 Culture

as explained on page 10. It should be noted that the Group is exposed to additional risks that are not considered material but could have an adverse impact.

Directors' report – Our progress in 2012

PRINCIPAL RISKS AND RISK MANAGEMENT PROCESS CONTINUED

RISK PROFILE CONTINUED

Strategic objective	Risk description and context	Mitigation actions
	STRATEGIC, MARKET AND BRAND	
1 2 3 4	**Economic downturn** General economic downturn leading to reduction in customer demand and production volumes impacting sales and margins.	Forward-looking indicators are regularly reviewed to identify deteriorating market conditions. Management structures in place to enable a rapid response to changing circumstances. Alternative "economic downturn" plans in place.
1 2 3	**Acquisitions** The Group pursues acquisitions as part of our overall growth strategy. Such acquisitions may not realise expected benefits.	Clear acquisition criteria used to confirm fit and value creation potential. Performing robust due diligence. Obtaining representations, warranties and indemnities from vendors where possible. Implementing business integration processes.
1	**Disposals** The Group disposes of non core businesses, not supporting the growth strategy in key markets. Risks include not achieving an expected sale price, unsuccessful or delayed disposal processes, or deteriorating business performance.	Assemble cross functional team with necessary skill sets. Regular reviews with project team. Regular talent and performance reviews, supported by monitoring and communication with employees. Close monitoring of representation, warranties and indemnities.
1 2	**New products or technical capability** The Group is seeking to introduce an increased number of new product offerings to key customers to grow existing and create new business opportunities. Risks include potential write-off for unsuccessful projects, project overruns and not achieving expected customer contracts, market pricing and benefits.	Robust project delivery and cost controls throughout product and project development cycle. Close communication and working relationships with key customers to ensure products meet expectation and demand. Regular project reviews with standard gated processes.
1 3	**Operational transformation programme** The Group continues to review and assess the target operating model to improve competitive advantage and be responsive to customers' requirements. This is achieved by consolidating manufacturing sites and setting up manufacturing and engineering capability in lower cost regions. Risks include disruption to customer base, loss of key talent and delayed or unsuccessful cost savings.	Strong change management and operational control with professional project managers to oversee major programmes. Close communication with key customers to explain the actions being taken and to understand and address their concerns. Regular talent and performance reviews, supported by monitoring and communication with employees.
1	**Customer concentration** Relationships with large key accounts continue to improve. Risks associated with large key accounts include over-reliance on key customers, price pressure, customer default and not achieving expected orders and benefits.	Review customer and market concentration and pursue opportunities by diversifying into new industries and regions. Improve margin with existing key customers by leveraging lower cost regions. Regular review and monitoring of key customers' financial status, orderbook levels and trends.
1 2 3	**Margin erosion** The Group operates in highly competitive markets. This, combined with continued uncertain macro-economic conditions, could cause customers to accept lower cost competitors and substitute products leading to increased price pressure, margin erosion or lost business.	Strong relationships with key customers, including ongoing review of product strategy, pricing and other demand. Operational transformation programme to leverage lower cost manufacturing locations, driving margin improvements. Monitoring of competitors and potential new entrants into specific markets.

1 Focus
2 Innovation
3 Globalisation
4 Culture

Strategic objective	Risk description and context	Mitigation actions
	OPERATIONAL	
3 4	**Health and Safety** Inherent to our industry is the risk of incidents due to unsafe manufacturing processes or facilities causing injuries or fatalities to our people.	Zero tolerance attitude for safety incidents at all levels of operations, with rules incorporated into operational procedures, safety manuals and all aspects of communication on safety. Health and Safety Committee responsible for Group-wide best practice sharing, monitoring and improvements.
3 4	**Attract and retain talent** Our future success as we expand will be dependent on our ability to attract and retain highly skilled and qualified employees. We face risks in selecting, recruiting, training and retaining the people we need.	Talent strategy and requirements regularly reviewed at Board and Operating Board level. Human resource teams share best practice across the Group to adapt recruitment and retention programmes to reflect changes in the labour market. Regular reviews of development plans and opportunities, including 360° appraisal results and succession planning. Remuneration Committee review of pay/bonus and ensuring competitive compensation plans and pensions are in place.
1 2 3 4	**IT delivery and support** The Group and operational management depend on timely, accurate and reliable information from software systems. Risks associated with the IT environment include failure to deliver IT projects on time and on budget, inadequate Enterprise Resource Planning ("ERP") controls and security, and a lack of management information that could delay/impact decision making or our service.	The Group's IT Steering Committee, chaired by the Group Chief Executive, meets on a regular basis to review all major IT projects. Hardware and software are sourced from reputable suppliers. Implementation of up-to-date ERP solution is in progress and will reduce exposure to older more fragmented ERP suites. Appropriate disaster recovery plans are in place.
1 2 3	**Supply chain reliance and costs** We rely upon a small number of core vendors for a high percentage of our material requirements. Some of our needs may only be available from a limited number of these vendors. There is potential risk in terms of supply and price fluctuations driven by commodity price changes.	Monthly reviews of key data ensure that each of our businesses are kept fully informed of developments in commodity pricing. Increased low cost sourcing will further offset current risk. In addition, commodity price hedging is undertaken on a non-deliverable basis taking into account the forecast volume of purchases, forward commodity prices and the cost of taking out cover.
	LAWS AND REGULATIONS	
1 2 3	**Product liability and contractual risk** We manufacture products that often operate in extreme environments where a serious incident arising from failure could result in liabilities for personal injury and/or damage to property, which could have an impact on our reputation, particularly in the automotive sector.	Comprehensive quality control procedures are in place and appropriate levels of insurance are carried for key risks. Major contracts are reviewed by the Group Legal Counsel and we work continuously to build and maintain relationships with all key stakeholders. Group guidelines on acceptable levels of contractual liability are reinforced by legal and regulatory risk training specific to each division's business and geographical needs.
1 2 3 4	**Legal and regulatory compliance** We operate in a large number of jurisdictions and, as a consequence, are subject to numerous domestic and international regulations. These include laws and regulations covering export control, anti-bribery and competition. Failure to comply could result in civil or criminal liabilities leading to significant fines and penalties or restrictions being placed upon our ability to trade, resulting in reduced sales, profitability and reputational damage.	Robust control framework. A cross-division export compliance group is embedded in the business, supported by Group Legal Counsel with external adviser participation. An anti bribery programme including employee declaration, supported by on-line and site specific training and audit programmes.
	FINANCIAL	
1 2 3 4	**Financial risks** As an international business, the major financial risks faced by the Group are: foreign exchange risk, interest rate risk, credit risk, liquidity risk, commodity price risk and tax compliance.	Financial risks are managed by the Group's Treasury department in close co-operation with the Group's business divisions and operating companies, under the oversight of a Tax and Treasury Committee which is chaired by the Group Finance Director. The responsibilities of the Group's Tax and Treasury department include 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 tax and treasury activities undertaken by the Group.

Directors' report – Our progress in 2012

CORPORATE RESPONSIBILITY

As a trusted provider of performance critical technology solutions with customers and operations around the world, TT electronics has responsibility for our workplace, marketplace, community and environment. Global industries face unprecedented challenges of macro-economic uncertainty, climate change and energy issues. Society expects creative, innovative and responsible thinking from industry.

We manage TT electronics responsibly and sustainably in accordance with the diverse expectations of global stakeholders. We understand corporate responsibility ("CR") as a dynamic discipline to understand the direction of TT electronics, manage risk and maximise opportunities worldwide.

The Corporate and Social Responsibility Committee, chaired by the Group Chief Executive, is responsible for defining our CR strategies, monitoring our CR performance and ensuring that our CR activity contributes to our overall business objectives.

Our CR agenda covers principal issues affecting the long-term sustainability of the Group by directly impacting reputation or ability to operate. The Group's four CR priorities, identified below, are material to our long-term performance and are supplemented at local level by CR programmes addressing local issues.

OUR WORKPLACE

We believe that the people working at TT electronics are our key assets. Creating a good working environment at all of our locations is of paramount importance. We strive to build supportive, diverse and attractive workplaces, whilst nurturing a high performance corporate culture from our core values.

An engaged workforce significantly enhances company performance. Engaged employees are more likely to perform well, promote TT and remain with TT for the longer term. They are also more likely to enhance our relationships with customers, stakeholders and the communities within which we operate.

Employee engagement begins with fostering a culture that is open, transparent and collaborative. At all levels within TT, we encourage openness and equality to enhance our culture.

We strive to maintain engagement of employees at all points from recruitment to retirement. We approach every interaction with openness, honesty and integrity. Strong relationships built on trust are at the core of what we do. Collaboration across the Group and outside of TT assists our ability to gather important insights and ideas, improving the way we conduct our business and serve our customers.

In 2012, significant progress was made to connect continually with our employees at all levels: We see this as critical to engagement. Throughout TT, we provide numerous open, transparent and two-way communication channels in manufacturing process, the promotion of best practice and strategically. Employees enjoy a wide range of communication tools to assist their understanding of the Company's goals and objectives. For example, all managers are encouraged to attend the quarterly webcast presented by the Group Chief Executive and Group Finance Director and cascade messages to their teams. Team briefings, suggestion schemes, employee forums and our global intranet "TT Talk" are among many other examples of our communication channels.

TT Talk is a Group wide intranet which showcases a broad range of activities from across the Group. Our CR section focuses on initiatives, employee achievements and charitable causes in which our people are involved, both through work and in the outside world.

We employ more than 5,000 people globally and continue to invest in their training and development. We strongly believe in equipping our people with the skills to do their jobs effectively, encouraging them to develop to their full potential. TT electronics provides a variety of tailored training and development opportunities. In 2012, the divisions continued their Six Sigma training programmes with further development of yellow, green and black belts.

In 2012, we launched our global management development programme – Aspire. The aim of Aspire is to provide supervisors and managers with fundamental skills for coaching their employees. Over 500 managers participated in the two day face-to-face training sessions which were held at each of our locations. 91 per cent of participants believe the course will lead to an overall increase in productivity.

We continued to make significant progress during 2012 in creating a working environment that supports the health, safety and well-being of our people. We saw a 30 per cent reduction in the number of three day workplace accidents compared with 2011. This represents an overall 58 per cent reduction in our three day accident rate over the last two years.

During the year all facilities within our Integrated Manufacturing Services division (IMS) achieved OHAS 18001 accreditation. The OHAS 18001 specification provides consistent requirements for an occupational Health and Safety management system, enabling IMS to control its occupational health and safety risks and improve its performance.

Managers and employees alike are encouraged to promote and live our corporate values, collectively making our people feel proud to be part of our organisation. During 2012 over 1,000 "Thank You" cards were issued through our global recognition programme "Inspire", which acknowledges individual and team contributions through monthly recognition awards, quarterly exceptional awards and bi-annual Group Chief Executive awards.

During 2012, Neil Jones and Bertold Lange (pictured below) were presented with the CEO Award in recognition of their outstanding contributions to the Group.

Bertold Lange is pictured receiving his CEO Award from Pat Murray, Chief Executive for the Sensors division. Bertold was awarded the CEO award in recognition of his leadership skills and unfaltering focus on the customer.

Neil Jones was awarded the CEO Award in recognition of relentless pursuit for an innovative solution to an important problem, coupled with his outstanding leadership skills.

OUR MARKETPLACE

We work closely with our customers, treating them with respect whilst ensuring we maintain the highest ethical standards. To this end we have launched a global, multi-lingual Ethics and Integrity Helpline. During the year five cases, all pertaining to the same matter, were submitted via the portal. All were investigated and appropriate action taken.

We seek to be a business partner that customers choose to work with for integrity and fairness. We require our own supply chain to ensure that their employees operate in a safe environment. The Group is a member of the Electronic Industry Citizenship Coalition ("EICC") and follows its Code of Conduct. The Code of Conduct provides guidance in four critical areas of CR performance – Environment, Ethics, Health and Safety, and Labour.

In 2012, we focused on improving the way in which we monitor and manage our supply chain and our production facilities. We adhere to appropriate values, ethics, standards and behaviours, even in areas where laws or standards are inadequate or absent, ensuring that we meet the needs of all stakeholders. During the year, we completed comprehensive EICC self-assessment questionnaires for each of our manufacturing facilities. All facilities scored well in each of the four critical areas.

Ensuring that we provide a world-class service to our customers is essential to the continued growth of our business. Each division has its own set of quality and performance measures which are monitored on a monthly basis. We undertake regular reviews with all our key customers to gather clear feedback on our performance.

We are vigilant about ensuring compliance with the UK's Bribery Act and similar legislation elsewhere, including continuous training and the terms and conditions under which we conduct business.

OUR ENVIRONMENT

During 2012, we continued to consolidate our position in terms of optimised energy consumption and are well placed in the published Carbon Reduction Commitment league table for our industrial sector.

Our objective of improving our carbon footprint within UK operations continues to gain momentum. Managed by focused internal teams, we are actively seeking best use of renewable resources, with localised wind generation and targeted solar arrays under consideration.

During 2012, all UK manufacturing sites installed smart metering systems to monitor gas and electricity usage and provide real time data with which we can further monitor and manage energy consumption.

In another example of improvement, our UK subsidiary, Welwyn Components Ltd is in the final stages of obtaining phase 2 of a Climate Change Agreement. The Welwyn team is working alongside AB Connectors and consultants from the Surface Coating Association on targeted carbon reduction. We continue to support and meet the requirements of the Carbon Trust Standard and aim to continue with our membership in 2013.

OUR COMMUNITY

Our UK charity partnership with Help the Hospices ended in 2012. Our employees have been amazing in supporting this charity over the last two years. Through fundraising and volunteering efforts, they have taken part in everything from bike rides to marathons, organised raffles and cake bakes, dressed up and dressed down. The work and energy that has been put into these activities by our employees is admirable. In total, we raised £100,000 for our local hospices.

For 2013, based on feedback from employees, our UK Charity of the Year partnership is with Macmillan Cancer Support. Macmillan is a national organisation, with many initiatives organised at a local level, and we look forward to working with and supporting them during the course of 2013.

Our facility in Mexico supported their local community when they participated in an event organised by the City Children's Hospital and the AproCancer Organization for the International Childhood Cancer Day. Employees donated a total of 80 new toys for children between the ages of three and 13 years. The committee of employees also helped with a range of other activities.

Congratulations to all who gave something back to their local community through their support for this noble cause.

As an organisation we believe that it is our responsibility to ensure that our activities support strong, thriving and diverse communities around the world. We aim to make a distinctive contribution to equality and social development by establishing effective partnerships and programmes that make best use of the energies and skills of our employees. We will continue to support our employees in fundraising for charities and voluntary work, recognising both the benefit to the community and to the employees themselves.

Our UK Charity of the Year partnership is with Macmillan Cancer Support.

Our colleagues in Mexico supporting International Childhood Cancer Day.

GOVERNANCE

IN THIS SECTION

Directors' report – Governance

INTRODUCTION BY THE CHAIRMAN

"Progress in embedding our core values, principles and ethics so that employees at all levels understand, and adhere to, the behaviours expected of them in their day to day activities has continued throughout 2012."

SEAN WATSON Chairman

Effective corporate governance continues to be of fundamental importance to the future success of TT electronics. Progress in embedding our core values, principles and ethics so that employees at all levels understand, and adhere to, the behaviours expected of them in their day to day activities has continued throughout 2012, supported by our Group-wide anti-bribery training and compliance programme and our multi-lingual, anonymous whistleblowing helpline.

Effective succession planning has continued to be a key theme in the governance of TT electronics, with John Shakeshaft and Stephen King successfully transitioning into their respective roles of Senior Independent Director and Chairman of the Audit Committee, upon the retirement of David Crowther in May 2012. The Board is well-balanced, with non-executives who collectively draw on a wealth and variety of experience, thus providing for meaningful discussion and effective decision making.

The earlier involvement of the Board as a whole in the strategic planning cycle during 2012 is a prime example of where this range of experience comes to the fore, with much greater challenge and debate being evident than in previous years and strategic plans being subjected to rigorous review.

Although not all elements of the existing UK Corporate Governance Code apply to TT electronics, the wider requirements of the Code have been considered by the Board and, where appropriate, action has been taken. For example, whilst the requirement for the annual re-election of all directors does not apply to TT electronics, as we are outside the FTSE 350, the Board has agreed that all Directors will stand for re-election at the Annual General Meeting to be held in May 2013. The Financial Reporting Council recently issued a revised UK Corporate Governance Code and revised guidance for Audit Committees. The Board and the Audit Committee have scheduled time in 2013 to discuss how the Company can best comply with these new requirements.

In June 2012, the Government published a consultation on what companies must disclose in their remuneration reports. The Remuneration report on pages 55 to 63 must necessarily address existing legislation. However, we have anticipated some of the new requirements as described in the Letter from the Remuneration Committee Chairman on page 55.

The Board of TT electronics attaches great importance to diversity issues at all levels across the business, but believes that of equal importance is the need to ensure that staff skills and competencies are matched to the strategic and operational needs of the business in our core markets.

Our risk management processes have been significantly enhanced following the appointment of Per-Olof Ahlstrom to the new combined role of Group Head of Risk and Assurance in January 2012. During the year Per-Olof has initiated a number of improvements in the analysis, detection and reporting of risk and, although there still remains work to be done, the benefits of this work are already evident.

These enhancements to our risk management process, together with our continued focus on encouraging the correct behaviours, serve to embed our core values throughout the Group and to strengthen our position as a trusted and respected partner to the world leading manufacturers with whom we do business.

Directors' report – Governance

BOARD OF DIRECTORS AND COMPANY SECRETARY

1. SEAN WATSON (64)
Chairman

Committees:
Nominations (Chairman)
Corporate Governance (Chairman)
Remuneration

Joined TT: 2007 as an independent non-executive Director. Chairman since May 2010.

Experience: A former partner and Head of Corporate Finance with CMS Cameron McKenna LLP. Was a non-executive Director of Informa plc from 2000 to 2009. A Trustee of Princess Alice Hospice.

2. GERAINT ANDERSON (53)
Group Chief Executive

Committees:
Corporate and Social Responsibility (Chairman)
Risk (Chairman)

Joined TT: 2008

Experience: Previously Vice President and General Manager of the Worldwide Service Provider Organisation for Linksys, a division of Cisco Systems, Inc.

3. SHATISH DASANI (51)
Group Finance Director

Committees:
Corporate Governance
Risk

Joined TT: 2008

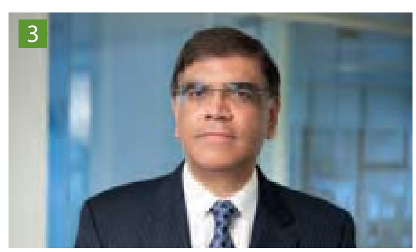
Experience: A Chartered Accountant, previously with De La Rue plc, Lafarge SA and Blue Circle Industries plc. Was also previously a non-executive Director of Camelot plc.

4. TIM ROBERTS (42)
Group Business Development Director

Committees:
Corporate Governance
Risk

Joined TT: 2008. Appointed to the Board in January 2010.

Experience: Previously Strategy and Business Development Director with Spirent Communications plc and formerly a solicitor specialising in corporate finance.



5. JOHN SHAKESHAFT (58)

Senior Independent Non-executive Director

Committees:
Remuneration (Chairman)
Audit
Nominations
Corporate and Social Responsibility

Joined TT: 2007

Experience: Currently Chairman of Ludgate Environmental Fund Limited; Deputy Chairman and Chair of the Audit Committee of The Economy Bank NV; Chair of the Investment Committee of Corestone, AG; Director and Chair of the Audit Committee of both Tele2 AB and Xebec Adsorption, Inc. Director of Valiance Investment Funds. External member and Chair of the Audit Committee of the Council of Cambridge University. Formerly a Managing Director at ABN AMRO and Lazard Brothers, having held senior positions within Barings, Morgan Stanley and Morgan Grenfell. Joined the City in 1986 following a number of overseas postings with HM Foreign and Commonwealth Office.

6. MICHAEL BAUNTON CBE (62)

Independent Non-executive Director

Committees:
Audit
Nominations
Remuneration

Joined TT: 2010

Experience: Currently Chairman of the Board of SMMT Industry Forum Limited (the Society of Motor Manufacturers and Traders' Industry Forum) and a non-executive Director of ACAL Energy Ltd. 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 Engines Company Limited and Tenneco Inc.

7. STEPHEN KING (52)

Independent Non-executive Director

Committees:
Audit (Chairman)
Nominations
Corporate Governance

Joined TT: 2011

Experience: Currently Group Finance Director of Caledonia Investments plc and Chairman of the Audit Committee of the Board of Bristow Group Inc. Formerly non-executive Director and Chairman of the Audit Committee of The Weir Group plc. Group Finance Director of De La Rue plc from 2003 to 2009 and, prior to that, Finance Director of Aquila Networks plc (formerly Midlands Electricity plc). A Chartered Accountant, Stephen has also held senior financial positions in Lucas Industries plc and Seeboard plc and was also a non-executive Director of Camelot plc from 2008 to 2009.

8. LYNTON BOARDMAN (46)

Group General Counsel & Company Secretary

Committees:
Risk
Corporate Governance

Joined TT: October 2012

Experience: A qualified solicitor, having practiced with Simmons & Simmons, MacFarlanes and Burges Salmon LLP. Formerly Head of Legal (Europe, Middle East and Africa) at Syngenta Crop Protection and then General Counsel and Company Secretary of QinetiQ Group plc from 2002 to 2011.

Directors' report – Governance

OPERATING BOARD

The Operating Board consists of the executive Directors, the Group General Counsel & Company Secretary and:

1. BILLAL HAMMOUD (40)

Divisional Chief Executive – Components

Committees:
Risk

Joined TT: 2010

Experience: 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 (53)

Divisional Chief Executive – Sensors

Committees:
Risk

Joined TT: 2009

Experience: 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. JOHN MOLLOY (49)

Divisional Chief Executive – IMS

Committees:
Risk

Joined TT: 2005

Experience: Joined the Group 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.

4. JOHN LEIGHTON-JONES (43)

Group Human Resources Director

Committees:
Corporate and Social Responsibility
Risk

Joined TT: 2010

Experience: Joined 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.

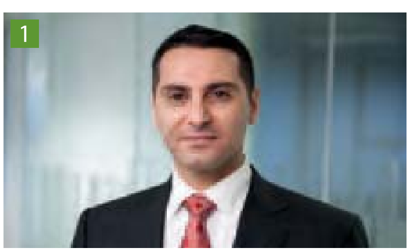
5. PER-OLOF AHLSTROM (36)

Group Head of Risk and Assurance

Committees:
Risk

Joined TT: January 2012

Experience: Joined from Everything Everywhere Limited, a joint venture between Orange UK and T-Mobile UK, where he was Director, Risk Assurance and Internal Audit. Previously worked with T-Mobile and PwC covering programme, service integration, risk, audit and compliance management. A CISA accredited Information System Auditor with a BSc and MSc, he is fluent in Swedish.



Directors' report – Governance

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining the highest standards of corporate governance. The main and supporting principles of good corporate governance set out in the UK Corporate Governance Code ("Code") have been complied with throughout the year ended 31 December 2012. 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 2012 the Board comprised three executive Directors and up to five non-executive Directors. All of the Directors served throughout the year, with the exception of David Crowther who retired on 15 May 2012. David Crowther was the senior independent non-executive Director until his retirement, at which point John Shakeshaft was appointed senior independent non-executive Director.

Board and Committee meetings are scheduled in line with the financial calendar of the Company, thereby ensuring that latest operating data is available for review and sufficient time and focus can be given to matters under consideration. During the year there were eight principal Board meetings on scheduled dates for which full notice was given. Of these principal meetings, one was dedicated to strategic planning, whilst one was held at Welwyn Components Ltd, a subsidiary located in Bedlington, UK, thereby enabling the non-executive Directors to meet with employees and gain a better understanding of this operation. Additional meetings are held as and when required and, during 2012, five such meetings took place. The Board has had two principal meetings and two additional meetings to date during 2013. Full details of each Director's Board and Committee meeting attendance are given on page 49 and in the relevant Committee report.

Directors

Directors' biographies including the Committees on which they serve and chair are shown on pages 44 and 45.

At the time of his appointment as Chairman, Sean Watson was considered to be independent in accordance with the provisions of the Code. All the remaining non-executive Directors are 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 at the first Annual General Meeting held following his initial appointment and thereafter, every three years. However, in light of best practice, the Board has agreed that all Directors will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Following formal performance evaluation, the performance of each Director continues to be effective and to demonstrate commitment to the role.

Directors' interests

The Directors of the Company at 31 December 2012 held interests in the following numbers of the Company's Ordinary shares of 25 pence each on 1 January 2012, 31 December 2012 and 11 March 2013:

	11 March 2013 Ordinary shares	**31 Dec 2012 Ordinary shares**	1 Jan 2012 Ordinary shares
Sean Watson	190,000	**190,000**	173,000
Geraint Anderson	560,000	**560,000**	140,000
Shatish Dasani	708,000	**708,000**	420,000
Tim Roberts	130,475	**130,475**	33,196
John Shakeshaft	51,206	**51,206**	15,479
Michael Baunton	72,717	**72,717**	64,217
Stephen King	100,000	**100,000**	50,000

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 62 and 63.

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; 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 is evaluated at least once a year.

Directors' report – Governance

CORPORATE GOVERNANCE CONTINUED

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 General Counsel & 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 conflicts 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, 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 potential use of external facilitation of the Board performance evaluation process was considered by the Board during the year, but was not felt to be appropriate at this point in time.

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 General Counsel & 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:

- The enhancements made to the strategic review process, including a Board meeting dedicated to strategy, had been key to the effective development of Group strategy, but that involving the Board in strategy development at an earlier stage would provide further benefits;
- Significant improvements had been made in ensuring robust and effective risk management following the appointment of the Group Head of Risk and Assurance and Stephen King's succession to the role of Chairman of the Audit Committee. Opportunities existed, however, for further improvement to the risk management process by more effective communication of emerging issues;
- Increasing the Board's engagement on matters of Corporate and Social Responsibility should be given greater focus;
- Increased visibility of senior management below Board level (via an annual review to be conducted by the Nominations Committee) would enhance successful succession planning; and
- The provision of a wider range of data would provide better management information on markets, competitors and international developments.

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, led by the senior independent non-executive Director, and with input from the Group Chief Executive, met privately to discuss this, with the outcomes 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 discuss and review confidentially their performance against objectives. The performance evaluation of the Group Chief Executive was conducted by the Chairman, taking account of the output from the Group's performance management programme together with feedback provided by the other non-executive Directors at a private meeting held to discuss this and any other matters which the non-executive Directors wished to raise.

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 52 to 54 and should be read as part of the Directors' report. Details of the Remuneration Committee and its activities are contained within the Remuneration report on pages 55 and 63.

Board meeting attendance 2012

Eight principal Board meetings were held during 2012. Details of attendance are set out below:

Sean Watson	8 of 8
Geraint Anderson	8 of 8
Shatish Dasani	8 of 8
Tim Roberts	8 of 8
David Crowther (retired 15 May 2012)	3 of 3
Michael Baunton	8 of 8
Stephen King	8 of 8
John Shakeshaft	8 of 8

Additional meetings of the Board and its principal Committees take place as and when required throughout the year. During 2012 there were five such Board meetings. By necessity, these meetings are often convened at shorter notice than would be the case for principal meetings. Two of these meetings were fully attended, however John Shakeshaft, Stephen King and Michael Baunton were unable to attend one such unscheduled meeting each.

Directors' attendance at meetings of the principal Committees on which they serve are detailed in the Nominations, Audit and Remuneration Committee reports on pages 52, 53 and 61.

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 an independent non-executive Director, the Group Finance Director, the Group Business Development Director and the Group Company Secretary. The Committee's duties are as follows: to review regularly the corporate governance procedures of the Company to ensure that they are up-to-date and effective, and 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 twice during 2012, during which time it re-considered Code provisions regarding the annual re-election of Directors. It was concluded that, notwithstanding the fact that this provision does not apply to the Company, it currently being outside of the FTSE 350, annual re-election for all Directors would be implemented with effect from the Annual General Meeting to be held in 2013. The reports and AGM voting recommendations from various investor bodies were also reviewed and suggested areas for improvement noted in relation to auditors and audit policy, remuneration and environmental, social and governance matters.

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 and up to three senior executives from within the Group. The Committee met four times during 2012 and has had one meeting to date during 2013. 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 on pages 40 and 41.

Directors' report – Governance

CORPORATE GOVERNANCE CONTINUED

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; monitoring risk appetite and exposure through regular reviews of principal risks; reviewing the effectiveness of risk management processes and controls; 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 robust risk management framework is in place to ensure that risks are identified, quantified, managed, monitored and reported.

During the year the Committee was strengthened by ensuring more cross functional representation and involvement from executive management at a Group as well as a divisional level. The Committee was chaired by the Group Chief Executive and included the Group Finance Director, the Group General Counsel, the Group Head of Risk and Assurance and other senior executives from within the Group. The Group Business Development Director, Group IT Director, Group Purchasing Director and Divisional Chief Executives also became members of the Committee in June 2012 and, in December 2012, the new Group General Counsel & Company Secretary replaced the existing Group General Counsel on the Committee. The Committee met eight times during 2012 and has had two meetings to date in 2013.

Further information on the Group's risk management activities and framework is given in the Risk management framework and risk profile section on pages 36 to 39 and in the Review of internal controls below.

Review of 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 appropriate 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, if controls are failing, are discovered and mitigated 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, divisional and Group levels as part of the annual budget preparation process. Having identified risks, operating companies and divisions then monitor, review and update the associated controls to mitigate the risks appropriately.

Further details of the Group's exposure to risk and processes in place to manage the same are set out on pages 36 to 39.

The risk management procedures and systems of internal control are designed to identify and assess principal 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 46.

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 and heads of business units 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. Management accounts are prepared monthly by each operating company comparing actual performance with budget. The financial performance of each operating company is subjected to in-depth 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 consolidated up to a divisional and Group level and 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 and the Board.

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 Risk and Assurance department review the internal control environment according to the annual internal audit plan agreed with the Audit Committee.

During 2012, risk management processes were reviewed and assessed by the Group Head of Risk and Assurance to identify recommended improvements. This review and consultation resulted in the executive management team agreeing to implement a two year improvement programme to further strengthen risk management processes and controls. Improvements implemented during 2012 are set out on page 37.

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 2012 and during the period since then to the date of this report. They have made, and will continue to make, improvements where necessary.

Financial risk management objectives and policies are set out under Financial risks on page 39.

Investor relations

Geraint Anderson and Shatish Dasani meet institutional investors immediately after publication of the annual and interim results and on an ongoing basis as required. Sean Watson, as Chairman, and John Shakeshaft, as senior independent non-executive Director and Chairman of the Remuneration Committee, also undertake consultation on certain matters with major shareholders from time to time. 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 2013 and the projections for 2014 developed during the 2012 annual strategic planning cycle. 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 2012 for a period of five years to August 2017. 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 13 March 2013 and signed on its behalf by:

Lynton Boardman
Group General Counsel & Company Secretary

Directors' report – Governance

NOMINATIONS COMMITTEE

MEMBERSHIP:

Sean Watson (Chairman)

Michael Baunton

Stephen King

John Shakeshaft

David Crowther (retired 15 May 2012)

Remit

The Nominations Committee's remit includes the structure, size and composition of the Board as a whole; the overall leadership needs of the organisation; consideration of succession planning for Directors and Divisional Chief Executives (having due regard to the length of service of non-executive Directors) and the search for and selection of suitable candidates for the appointment of replacement or additional Directors.

Committee meeting attendance 2012

During 2012 the Committee met twice.

Sean Watson	2 of 2
Michael Baunton	2 of 2
Stephen King	2 of 2
John Shakeshaft	2 of 2
David Crowther	1 of 1

The Committee has had no meetings to date during 2013.

2012 review

The Committee seeks to ensure that the Board of TT electronics is balanced and effective with diverse skills, knowledge and experience. Diversity and gender inclusiveness span the whole Group and are important and enduring considerations in the search for and selection of Board members.

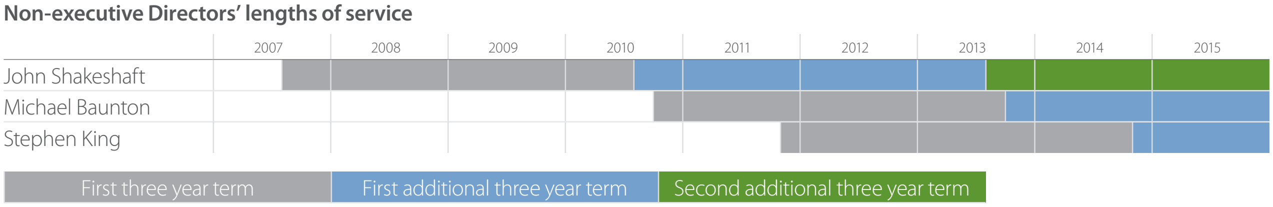
During 2012 the Committee re-considered whether the introduction of diversity quotas or targets was appropriate. The Committee is rigorous in seeking talent and is focused on ensuring that the Group has the best possible Board available to promote its interests. The Committee engages external search consultants to assist in the specification of Board positions and their selection of prospective candidates to ensure that there is a robust, measurable and orderly process. The Committee believes that this rigorous process has, over time, led to the recruitment of talented individuals, significantly enhancing the composition of the Board.

The Committee continues to consider that diversity quotas are inappropriate and is committed to recruiting the best talent available, based on merit and assessed against objective criteria of skills, knowledge, independence and experience. Its primary objective is to ensure that TT electronics maintains the strongest possible leadership.

The Board attaches a high degree of importance to diversity at all levels across the Group, although of equal importance is the need to ensure that staff skills and competencies are matched to the strategic and operational needs of the business in its core markets.

During 2012 the Committee considered Board and Committee composition in light of the retirement of David Crowther. At the time of his appointment, Stephen King had already been identified as a suitable successor to the role of Chairman of the Audit Committee. The Committee further recommended to the Board that John Shakeshaft should be appointed as the senior independent non-executive Director, with Michael Baunton to serve on the Remuneration Committee and Stephen King on the Corporate Governance Committee.

Non-executive Directors' lengths of service



Performance evaluation

The Committee carried out an assessment of its performance in 2012 based on a review of its activities during the year against its terms of reference. It was concluded that the Committee had performed satisfactorily and is structured appropriately to provide effective support to the Board. The Committee had increased its involvement in the recruitment process for senior positions below Board level, which in turn had enabled greater visibility of potential successors to executive Board positions. The Committee continued to have improved visibility on the business and the performance of senior management team members as a result of Divisional Chief Executives presenting at Board meetings, site visits undertaken by the Board and non-executive Directors participating in Group events.

Directors' report – Governance

AUDIT COMMITTEE

MEMBERSHIP:

Stephen King (Chairman)

Michael Baunton

John Shakeshaft

David Crowther (retired 15 May 2012)

Remit

The Committee's duties include reviewing and advising the Board on:

- the integrity of the financial statements;
- the appointment and remuneration of external auditors and their effectiveness 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;
- internal control and risk management processes, including principal risks and internal control findings highlighted by management or internal and external audit;
- the content of the Auditors' transparency report, concerning Auditor independence in providing both audit and non-audit services;
- the scope, performance and effectiveness of the internal audit and other internal control functions and the Auditors' assessment thereon; and
- the Company's procedures for responding to any allegations made by whistleblowers.

The Code requires that at least one member of the Audit Committee has recent and relevant financial experience. Stephen King fulfils this requirement.

Committee meeting attendance 2012

During 2012 the Committee held five scheduled meetings.

Stephen King	5 of 5	John Shakeshaft	5 of 5
Michael Baunton	5 of 5	David Crowther	3 of 3

One additional meeting of the Committee took place during the year and this was fully attended. The Committee met twice with the Group's auditors, KPMG Audit Plc, without executives of the Company being present. During the year, the Committee also met once with the Group Head of Risk and Assurance (the head of the internal control function) without executives of the Company being present.

The Committee has had one meeting to date during 2013.

2012 review

In order that the Audit Committee fulfils its duties regarding the integrity of the financial statements and other financial data, the Group Finance Director and the Group Financial Controller attend Committee meetings, presenting reports and providing analysis and explanations for queries raised. The external auditors are also attendees and present reports on their audits – addressing such matters as an overview of the financial statements, key accounting judgements, accounting policies, audit differences and internal control matters.

During 2012 the Group Head of Risk and Assurance also attended meetings, to update the Audit Committee on progress on the internal audit plan; findings and recommendations; and team and methodology improvements. A formal review of the effectiveness of the internal control function is undertaken as part of the year end process. The Committee also regularly received reports from the Risk Committee to review principal risks and the effectiveness of risk management processes.

Whistleblowing matters reported through the Group's multi-lingual, anonymous Ethics and Integrity portal are reported to, and considered by, the Committee. During the year the Committee received details of five cases, all pertaining to the same matter, each of which was investigated and appropriate action taken.

The Committee has reviewed the form and content of the Group's Annual report and accounts and financial statements for 2012. In conducting its review, the Committee considered reports prepared by management and the external auditors. These reports covered analyses of the judgements and sources of estimation uncertainty involved in applying the accounting policies as described in note 1(g) to the financial statements. The Committee also considered the goodwill assumptions and level of provisions held on the balance sheet, as well as the going concern statement on page 51.

Directors' report – Governance

AUDIT COMMITTEE CONTINUED

Auditors' independence, objectivity and effectiveness

The independence of the Auditors is assessed annually by the Audit Committee in order to ensure that suitable policies and procedures are in place to safeguard the Auditors' independence and objectivity, having regard to length of tenure, provision of non-audit services and the existence of any conflicts of interest. KPMG Audit Plc were appointed in July 2010, at which time their independence had been considered. At the time of the annual assessment, the provision of non-audit services was reviewed, together with KPMG Audit Plc's Transparency Report, and KPMG Audit Plc confirmed that no conflicts of interest existed of which the Audit Committee should be aware.

The Committee has formally reviewed the independence of the Auditors as part of the 2012 review. KPMG Audit Plc have provided a letter to the Committee confirming that they remain independent within the meaning of the regulations on this matter and in accordance with their professional standards.

The Committee also reviewed the effectiveness of the Auditors during the year. The use of an evaluation questionnaire, an auditor assessment survey (completed by heads of finance across the Group's operations), together with information provided by the Auditors, assisted in ensuring that a comprehensive assessment was undertaken. Areas for improvement were identified and communicated to the Auditors for action.

The Audit Committee has recommended to the Board that KPMG Audit Plc continue in office as Auditors.

Policy on non-audit services

The Company has an established policy regarding the provision of non-audit services by external auditors. 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 £25,000 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 also 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 overriding 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.

In 2012, audit service fees paid to KPMG Audit Plc were £0.8 million, whilst non-audit service fees paid to KPMG totalled £0.3 million. Of this £0.3 million: £39,000 (12 per cent) related to minor projects which were beneath the £25,000 approval threshold detailed above; whilst £122,000 (37 per cent) related to ongoing work for which KPMG had already been engaged prior to being considered for the audit tender process carried out in 2010 and of which the Audit Committee were fully aware at the time of KPMG's appointment as auditors. The remaining non-audit service fees paid to KPMG during the year comprised fees principally relating to the provision of taxation services, including taxation compliance advice.

Performance evaluation

The Committee carried out an assessment of its performance in 2012 based on a review of its activities during the year against its terms of reference. It was concluded that the Committee had performed effectively and is structured appropriately to provide effective support to the Board, with Stephen King having successfully transitioned into the role of Chair of the Committee upon the retirement of David Crowther. Areas for development which emerged from the performance assessment were identified and appropriate focus will be given to these during the forthcoming year.

Directors' report – Governance

REMUNERATION REPORT

MEMBERSHIP:
John Shakeshaft (Chairman)
Michael Baunton
Sean Watson

"Our remuneration policy is to attract, retain and motivate high-performing individuals to deliver our business strategy and create long-term sustainable value for stakeholders."

Letter from the Remuneration Committee Chairman

I am pleased to present the TT electronics plc 2012 Remuneration report.

The Remuneration Committee has agreed to adopt several changes proposed under UK legislation to be applied from the end of 2013. This report is therefore divided into two sections:

- A Remuneration Policy report which includes our current remuneration policy and that proposed for 2013 and after; and
- An Implementation report which sets out what has been paid and awarded or vested in the year under review.

We will seek your support for both parts of the report by way of a single advisory vote at the AGM on 9 May 2013.

We aim to provide a clear description and rationale for our decisions in determining remuneration policy and awards. Executive remuneration has received exceptional levels of coverage during the last 12 months from Government, investors, media and the public. Increased levels of scrutiny, coupled with the changes to reporting requirements, have reinforced our endeavours to ensure executive remuneration is measurably linked to performance and the delivery of business strategy, creating long-term value.

We believe that discretionary target related remuneration should incentivise exceptional performance. Performance related pay represents a significant portion of total remuneration for senior managers across the Group. For executive Directors, 46.5 per cent of anticipated remuneration is at risk. Performance is measured against a range of criteria including operational, financial, and Health and Safety.

Emphasis In 2012

The Remuneration Committee consulted shareholders and shareholder representative bodies regarding changes to our Long Term Incentive Plan in 2012. We considered and approved executive salary increases against a backdrop of heightened interest in executive remuneration. We reviewed and analysed independent remuneration data supplied by New Bridge Street, including comparisons with peer companies.

In 2012, most UK manufacturing companies faced economic uncertainty as a result of the continuing Eurozone crisis. On reviewing performance over the past 12 months, given the challenging macro-economic conditions in all our geographic markets, the Group delivered reasonable results.

During 2012, the Committee revisited remuneration policy, ensuring that executives were appropriately incentivised and rewarded for performance with appropriate levels of risk management.

The Company's remuneration policy relies upon three components to ensure that a balanced approach between fixed and variable remuneration is maintained in both the short- and long-term:

- base salaries are set around market levels;
- annual bonus schemes reward the achievement of short-term growth targets coupled with the delivery of established strategic objectives; and
- long-term incentives reward long-term growth, achievement of strategic objectives and provide alignment with investors.

Our approach to remuneration plays an important role in retaining and incentivising the current management team which has built TT into a focused electronics group. We believe our remuneration policy and approach encourage outperformance by executive Directors and senior management and align management interests with those of shareholders.

We welcome your comments on our approach to remuneration, including the scope and format of this report.

John Shakeshaft
Chairman of the Remuneration Committee

Directors' report – Governance

REMUNERATION REPORT CONTINUED

Introduction

The Directors' remuneration report has been prepared in accordance with the requirements of the Companies Act 2006, Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules of the Financial Services Authority, the principles of the UK Corporate Governance Code and best practice guidelines more generally. Furthermore, in response to the UK Government's proposed legislation regarding the reporting of directors' remuneration and changes to the voting rights, a number of the revised reporting requirements have been incorporated into this year's report. We will be seeking shareholder approval of the report at the forthcoming Annual General Meeting on 9 May 2013.

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 unaudited and audited information.

Unaudited information

Remuneration policy

The Group is committed to the objective of maximising shareholder return in the longer term, ensuring that a strong link between performance and reward is maintained. The remuneration policy aims to be competitive, performance based, aligned to shareholder interests and relatively simple and transparent in nature.

The Committee aims to pay base salaries around market levels coupled with highly competitive total rewards that are linked to performance and aligned with shareholders' interests. Remuneration packages must meet the objective of attracting, retaining and motivating executives of the highest quality in a challenging business environment. In delivering an appropriate mix between fixed and variable remuneration, the Committee is mindful to avoid creating excessive risks in the pursuit of performance metrics.

Following a review of the existing total remuneration for executive Directors and the most senior managers, the Committee concluded that the following principles remain appropriate for 2013:

Competitive: Through the combination of base salaries and competitive performance-related incentive mechanisms, the Group aims to provide individuals with a competitive total remuneration package in return for superior performance. Base salaries are designed to reflect the nature of the role and its responsibility, together with the overall level of individual performance. In ascertaining appropriate salary adjustments, account is also taken of prevailing market and economic conditions together with salary levels across the Group.

Performance-related: The majority of the executive Directors' and senior managers' remuneration is determined based on the performance of the Group. A significant proportion of this is aligned to shareholder interests based on earnings growth and total return. Failure to achieve predetermined growth thresholds results in no payout under the Group's annual bonus or long-term incentive arrangements. In order to provide further alignment with the achievement of strategic objectives and delivery of value to shareholders, executive Directors have agreed to maintain a minimum shareholding equal to 100 per cent of base salary through the vesting of long-term incentives.

Transparency: In order to engender a fair and collaborative culture, total remuneration is clear and openly communicated.

Components of total remuneration

In the year under review, executive Directors' total remuneration packages comprised:

- Fixed pay, including base salary, pension contribution, car or car allowance and private medical insurance; and
- Variable pay, comprising annual bonus opportunity, participation in a share based Long Term Incentive Plan and participation in an all employee share scheme.

No changes were made in 2012 to the level of short-term or long-term incentive payouts payable for achieving either on-target or stretch performance.

Remuneration policy statement

This policy applies to current executive Directors from 1 January 2013.

Element	Purpose and link to strategy	Operation	Maximum	Performance targets	Changes from prior policy
Salary	• Reflects the value of the individual and their role • Reflects skills and experience over time • Provides an appropriate level of basic fixed income avoiding excessive risk arising from over reliance on variable income	• Reviewed annually, effective 1 January • Takes periodic account of practices of companies with similar characteristics and sector comparators	• Annual increases linked to those of the wider workforce. Where salaries are below market levels, higher increases may be awarded to close the gap	• N/A	• Salary increases of 3% were made to the Group Chief Executive and Group Finance Director. The Group Business Development Director received an award of 8.5%
Bonus	• Incentivises annual delivery of financial and strategic goals • Maximum bonus only payable for achieving demanding targets	• Paid in cash • Not pensionable	• 100% of salary	• Group profit (50%) • Group operating cash flow (12.5%) • Group Average Working Capital (12.5%) • Personal objectives (25%)	• Please see page 3 and 22
Long Term Incentive Plan, SIP, SAYE and CSOP	• Aligned to main strategic objectives of delivering sustainable profit growth and shareholder return	• Annual grant of nil cost options or performance shares which normally vest after three years, subject to continued service and performance targets	• 100% of salary • Executives also eligible to participate in the Group SAYE on the same terms as other employees	• LTIP performance measured over three years • 50% EPS (25% will vest for annual adjusted EPS growth of RPI+10% increasing pro-rata to full vesting for annual EPS growth of RPI+20%) • 50% TSR (25% of this part of the award will vest if the Company's TSR is equal to the TSR of the median company of the FTSE SmallCap (excluding investment trusts), with full vesting for top quartile performance)	• LTIP awards of 100% of salary were made to each of the executive Directors
Pension	• Provides modest retirement benefits • Opportunity for executives to contribute to their own retirement plan	• Defined contribution/salary supplement	• Company contributes 15% of salary • Executives are able to salary exchange on same terms as other employees	• N/A	• N/A
Other benefits	• To aid retention and recruitment	• Company car allowance and the provision of private medical insurance	• N/A	• N/A	• N/A
Share ownership guidelines	• To provide alignment between executives and shareholders	• Executive Directors are required to build and maintain a shareholding equivalent to one year's base salary through the retention of vested share awards or through open market purchases	• N/A	• N/A	• N/A

It is anticipated that the above policy would also apply to any new executive Director.

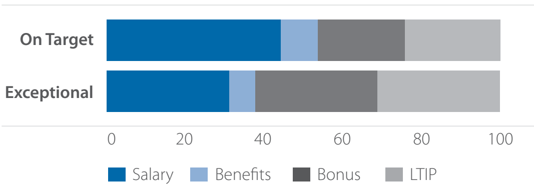
Directors' report – Governance

REMUNERATION REPORT CONTINUED

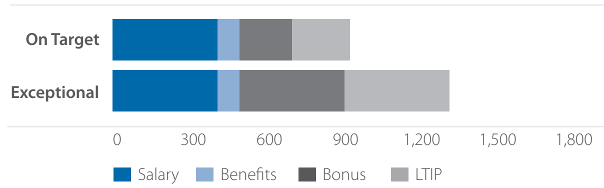
Possible remuneration for executive Directors

The charts below show how the composition of each of the executive Directors' remuneration packages varies at different levels of performance under the policy set out above, as a percentage of total opportunity and total value respectively:

Proportion of Remuneration Policy (%)



Value of Group Chief Executive's Package (£'000)



Detailed remuneration policy

Base salary

The Committee reviews salaries annually and takes account of personal and Company performance, together with data on companies of a broadly similar size and complexity. Details of current base salary levels for executive Directors who served during the year are set out below:

	1 January 2012	1 January 2013	% increase
Geraint Anderson	**£388,516**	£400,171	3%
Shatish Dasani	**£266,049**	£274,030	3%
Tim Roberts	**£210,000**	£227,766	8.5%

In reviewing base salaries from 1 January 2013, the Committee had regard to personal performance, Group performance and pay levels within the Group. External benchmark data was also considered on companies within similar sectors and of a similar turnover and market capitalisation to the Group, although such external comparisons are used cautiously given the risk of upward ratchets in pay.

As a result, base salary levels for the Group Chief Executive and Group Finance Director were increased by the general workforce increase of 3 per cent. The salary for the Group Business Development Director was increased by 8.5 per cent reflecting both personal performance and increasing experience since joining the Board at the start of 2010. This latest adjustment aligns his remuneration to market. All increases were made with effect from 1 January 2013.

Benefits

Benefits in kind comprise a company car or allowance and the provision of private medical insurance.

Pension

The Company contributes approximately 15 per cent of salary either to a defined contribution arrangement or as a salary supplement for each executive Director.

Annual bonus

The annual performance metrics for 2012 were designed to reward delivery of our strategic priorities for the year. Bonus arrangements for executive Directors comprise four elements: operating profit, operating cash flow, average working capital and the attainment of personal objectives. The objective of performance-related remuneration is to stimulate improved Group results by providing the opportunity for increased remuneration upon the achievement of challenging performance targets. If overall business performance is not at the required level, the Committee has the discretion to reduce an individual's bonus for the year.

For 2012, targets comprised a sliding scale of operating profit (50 per cent of total bonus potential), a sliding scale of cash measures (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). This recognises the importance attached to successful implementation of the Group's strategy. The bonus arrangements for all senior executives below Board level are aligned to the same performance criteria to encourage greater team working and also include an element of profit of the whole division or business group into which they report.

Bonus awards for 2012

	Potential (% of salary)	Maximum/Stretch performance (% of budget)	% of budget achieved	Actual payout (% of salary)
Group profit	50%	120%	97.8%	20%
Group operating cash flow	12.5%	120%	107.7%	8.3%
Group average working capital / sales	12.5%	95%	92.7%	12.5%
Personal objectives	25%	n/a	n/a	
Total % of salary	100%			

The mathematical calculation produces a bonus achievement of 65.8 per cent of maximum. Following an assessment of performance targets in light of the Group's overall performance, the Committee has exercised its discretion and moderated bonus payments to 50 per cent of maximum.

For further analysis of the Group's performance please refer to the Key performance indicators on pages 22 and 23.

Details of bonuses awarded to the executive Directors for the year ended 31 December 2012 are set out in the emoluments table on page 62.

Annual Bonus Opportunity 2013

The maximum potential bonus which can be earned will continue to be 100 per cent of salary in 2013. The bonus arrangements for 2013 have been reviewed and will continue to be predicated on profitable growth combined with strong cash performance, supported by the achievement of key strategic initiatives through the fulfilment of personal objectives including a newly introduced value creation measure. Executives have a vested interest in ensuring sustainable value creation. A variety of measures, including ROCE, are used to assess value performance with regard to acquisitions and specific investment projects.

Long Term Incentive Plan 2005 ("LTIP")

The LTIP is the Company's primary long-term incentive scheme. 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 April 2012 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 2014 is equal to RPI plus 10 per cent compound per annum, increasing on a straight-line basis to 100 per cent vesting for EPS growth of at least 20 per cent compound per annum in excess of RPI; 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 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. The Committee's current intention is that similar EPS and TSR targets will apply for awards to be granted in 2013.

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.

Dilution

The Company's dilution position for all employee schemes at 31 December 2012 was 5.93 per cent against the 10 per cent in ten year limit contained within the LTIP rules. Of this, 4.76 per cent relates to dilution under discretionary arrangements. Share usage is carefully monitored by the Committee.

Clawback

Consistent with best practice, provisions apply whereby annual bonus and LTIP awards may be clawed back if following payment/grant/vesting it transpires that value was awarded/delivered as a result of gross misconduct or a material mis-statement of results.

Total shareholder return

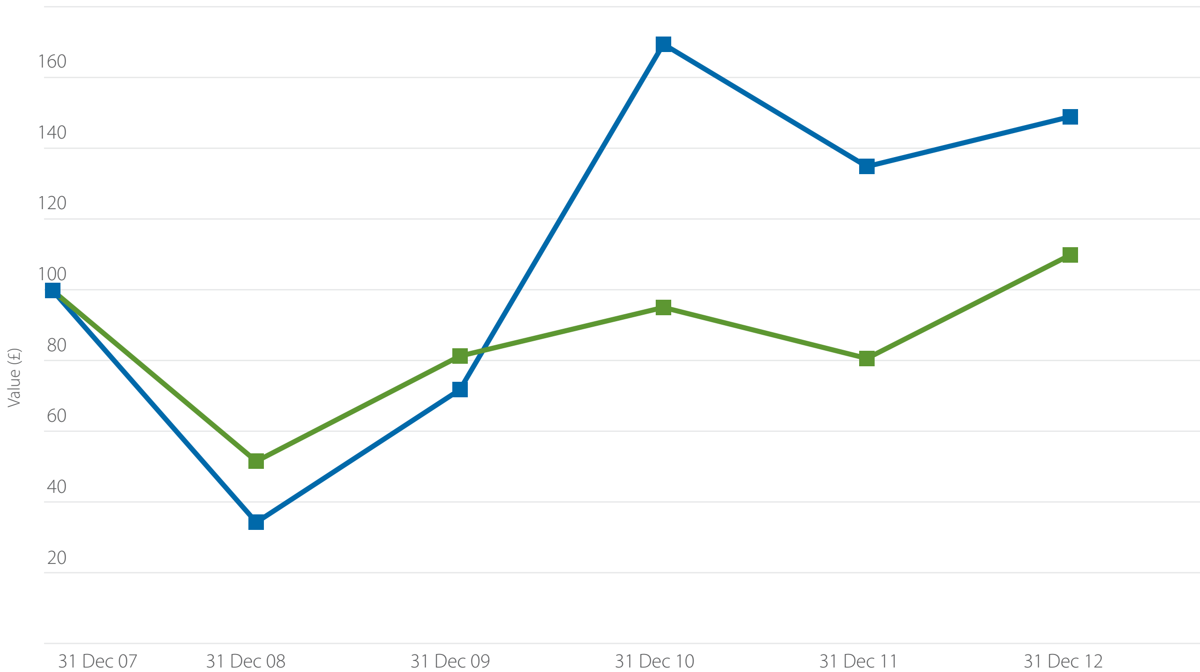
The Company's total shareholder return performance for the six years to 31 December 2012 is shown on the graph overleaf compared with the index of the FTSE SmallCap companies (excluding investment trusts). As the Company is a constituent of the FTSE SmallCap Index, the Directors consider it an appropriate benchmark for the Company's performance.

Directors' report – Governance

REMUNERATION REPORT CONTINUED

Total shareholder return

Source: Thomson Reuters Datastream



This graph shows the value, by 31 December 2012, of £100 invested in TT electronics plc on 31 December 2007 compared with the value of £100 invested in the FTSE SmallCap index (excluding investment trusts). The other plotted points are the values at intervening financial year ends.

TT electronics plc   FTSE SmallCap (excluding investment trusts) Index

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 introduced all employee Sharesave schemes in 2010 and these have been extended internationally as legislation and costs permit. Grants under the schemes have been made to encourage the involvement of employees in the Company's performance. The executive Directors have all chosen to participate in the UK scheme.

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 Directors. These contracts include 12 month non compete clauses and standard provisions for summary termination and are terminable on 12 months' notice from either side.

Non executive Directors

The fees 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 comparable companies. The fees paid to the Chairman were reviewed at the start of 2013 and increased by 3 per cent. Current fee levels are as follows:

	1 January 2012	1 January 2013	% increase
Chairman	**£143,500**	£147,805	3%
Non executive Director	**£39,000**	£40,000	3%
Audit Committee Chair fee	**£7,000**	£7,000	0%
Remuneration Committee Chair fee	**£7,000**	£7,000	0%

No benefits in kind are provided for non executive Directors.

IMPLEMENTATION REPORT

Remuneration Committee Role and Membership

The role of the Committee is to recommend to the Board the policy for the remuneration of the Chairman, executive Directors, Divisional Chief Executives and the Group General Counsel & Company Secretary. Such remuneration includes fees, salaries and other benefits, pensions, performance related pay, 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.

The Group Chief Executive, Geraint Anderson, and the Group Human Resources Director, John Leighton-Jones, also attend Committee meetings as and when required to provide advice on Group strategy, performance and remuneration strategy. No individual is present during discussions relating to their own remuneration.

During the year, the members of the Committee and their attendance at meetings were as follows:

Name	Notes	Attendance
John Shakeshaft	Committee Chairman	4 of 4
Michael Baunton	(appointed 15 May 2012)	1 of 1
Sean Watson		4 of 4
David Crowther	(retired 15 May 2012)	3 of 3

Two additional meetings of the Committee took place during the year and were both fully attended. The Committee has had two meetings to date during 2013.

Performance evaluation

The Committee assessed its performance, constitution and terms of reference during 2012 based on a questionnaire completed by members. The Committee was deemed to be performing satisfactorily, having benefited from having access to more in depth information on the performance assessments of individuals within its remit, together with increased visibility of management remuneration arrangements across the Group.

2012 review

The Committee's main activities during 2012 included the:

- annual review of base salary levels;
- review of executive Director pension arrangements;
- assessment of annual bonus levels for executive Directors for 2011, payable in 2012;
- review of the cash target for bonus arrangements for 2012;
- setting of targets for the 2013 executive Directors' annual bonus plan;
- review of total remuneration levels for executive Directors and the next level of senior executives;
- review of the linkage between risk and reward;
- review of non executive Chairman's fees;
- vesting of 2009 grant under the LTIP;
- 2012 grant under the LTIP (including a review of the performance targets);
- review of the LTIP structure and the current dilution position;
- consultation with shareholders and shareholder representative bodies regarding changes to the LTIP;
- review of the Committee's external advisers;
- consideration of Economic Value Added measures; and
- evaluation of proposed BIS reporting regulations on Directors' pay.

External advisors

In order to enable the Committee to make informed decisions on executive remuneration, the Committee retained the services of New Bridge Street ("NBS"), independent external consultants, to advise on senior executive remuneration matters. NBS provided no other services to the Company during the year.

Shareholder voting at AGM

At the Annual General Meeting held on 15 May 2012, resolutions pertaining to the Directors' remuneration report and the removal of the 5 per cent dilution rule of the LTIP were passed on a show of hands. Proxy votes cast in respect of these resolutions were as follows:

Number of votes	For	Discretionary	Against	Withheld	Total vote
Remuneration report	112,144,003	148,416	1,088,217	991,019	114,371,655
LTIP rule deletion	101,060,364	166,954	1,389,227	11,754,585	114,371,130

Directors' report – Governance

REMUNERATION REPORT CONTINUED

AUDITED INFORMATION

Aggregate Directors' emoluments

Set out below are tables of remuneration of the Directors who served during 2012 and 2011. 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[2] £000	Payment in lieu of pension	Benefits[3] £000	2012 Total £000	2011 Total £000
Executive Directors						
Geraint Anderson	**389**[1]	**194**	**22**	**25**	**630**	771
Shatish Dasani	**266**	**133**	**38**	**26**	**463**	533
Tim Roberts	**210**[1]	**105**	**–**	**11**	**326**	383
Non executive Directors						
Sean Watson	**144**	**–**	**–**	**–**	**144**	140
Michael Baunton	**39**	**–**	**–**	**–**	**39**	38
Stephen King	**43**	**–**	**–**	**–**	**43**	7
John Shakeshaft	**46**	**–**	**–**	**–**	**46**	45
Former Directors						
David Crowther	**16**	**–**	**–**	**–**	**16**	45

[1] Prior to adjustments to basic salary for salary exchange pensions

[2] The amounts are payable under the bonus arrangements in place for 2012 as explained above. 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.

[3] Benefits in kind during the year comprised a company car or allowance and the provision of private medical insurance. No Director received an expense allowance during the year.

Executive Directors' pensions – defined contribution

During 2012 the Company contributed £44,171.47 for Geraint Anderson, £3,563.09 for Shatish Dasani and £34,195.00 for Tim Roberts to the Company's group personal pension arrangement. For Geraint Anderson and Tim Roberts this amount includes £7,770.32 and £2,695.00 respectively which was paid by the Company under the salary exchange arrangements.

Long Term Incentive Plan

As at 31 December 2012, Directors' interests under the LTIP were as follows:

	Date of grant	1 January 2012	Granted during the year	Lapsed	Vested	31 December 2012	Market value[1] at 31 December 2012 £	Market price at grant date pence	Vesting date
Geraint Anderson	05 May 09	875,000	–	–	875,000	–	–	30.25	07 May 12
	04 May 10	330,189	–	–	–	330,189	475,472	106.00	04 May 13
	27 Apr 11	216,285	–	–	–	216,285	311,450	172.25	27 Apr 14
	25 Apr 12	–	212,885	–	–	212,885	306,554	182.5	25 Apr 15
		1,421,474	212,885	–	875,000	759,359	1,093,476		
Shatish Dasani	05 May 09	600,000	–	–	600,000	–	–	30.25	07 May 12
	04 May 10	226,415	–	–	–	226,415	326,038	106.00	04 May 13
	27 Apr 11	148,108	–	–	–	148,108	213,276	172.25	27 Apr 14
	25 Apr 12	–	146,027	–	–	146,027	210,279	182.5	25 Apr 15
		974,523	146,027	–	600,000	520,550	749,593		
Tim Roberts	05 May 09	202,667	–	–	202,667	–	–	30.25	07 May 12
	04 May 10	123,821	–	–	–	123,821	178,302	106.00	04 May 13
	27 Apr 11	108,142	–	–	–	108,142	155,724	172.25	27 Apr 14
	25 Apr 12	–	115,068	–	–	115,068	165,698	182.5	25 Apr 15
		434,630	115,068	–	202,667	347,031	499,724		

[1] The market value at 31 December 2012 represents the total number of shares awarded multiplied by 144 pence being the share price on 31 December 2012. The calculation does not take into account the likelihood of vesting.

LTIP Performance Criteria

In 2012, LTIP allocations equal to 100 per cent of base pay were awarded to executive Directors. The performance measures attaching to the outstanding and recently vested LTIP awards are shown in the table below:

Vesting criteria[1]	2009[2]	2010	2011	**2012**
One half on EPS[3] growth in excess of RPI				
Full vesting	7%	= 14 pence	15%	**20%**
Zero vesting if below	3%	= 12 pence	10%	**10%**
	Vesting will increase on a straight line basis between 25% and 100% between the above points			
One half on TSR performance against the FTSE SmallCap (excluding Investment Trusts)				
Full vesting		upper quartile ranking		
Zero vesting if below		median ranking		
	Vesting will increase on a straight line basis between 25% and 100% for ranking between these points			

[1] Awards are measured over a three year period.

[2] The LTIP awards granted in 2009 vested in full on 7 May 2012. The market price on the vesting date was 182.5 pence.

[3] The increase in EPS is measured on a per annum compound basis.

TT electronics plc Sharesave Scheme

As at 31 December 2012, Directors' interests under the Sharesave Scheme were as follows:

	Date of grant	1 January 2012	Granted during the year	Lapsed	Vested	31 December 2012	Potential gain at 31 December 2012[1] £	Option price pence	Exercisable between
Geraint Anderson	01 Oct 10	13,552	–	–	–	13,552	4,066	114	1 Nov 15–30 Apr 16
Shatish Dasani	01 Oct 10	7,894	–	–	–	7,894	2,368	114	1 Nov 13–30 Apr 14
Tim Roberts	01 Oct 10	7,894	–	–	–	7,894	2,368	114	1 Nov 13–30 Apr 14

[1] The potential gain at 31 December 2012 represents the total number of shares under option multiplied by 144 pence being the share price on 31 December 2012 less the option price. The calculation assumes that the executive Director remains employed and completes the contract.

Directors' interest in shares

The following table shows the interests of the Directors who held office at the end of the year in the Ordinary shares of the Company.

	Shareholdings as at 31 December 2012		Shareholdings as at 31 December 2011	
Executive Directors				
Geraint Anderson	**560,000**	**0.350%**	140,000	0.090%
Shatish Dasani	**708,000**	**0.450%**	420,000	0.270%
Tim Roberts	**130,475**	**0.083%**	33,196	0.021%
Non executive Directors				
Sean Watson	**190,000**	**0.120%**	173,000	0.110%
Michael Baunton	**72,717**	**0.046%**	64,217	0.041%
Stephen King	**100,000**	**0.063%**	50,000	0.032%
John Shakeshaft	**51,206**	**0.032%**	15,479	0.009%
David Crowther (retired 15 May 2012)	**–**	**–**	111,006	0.071%

The closing middle market prices for an Ordinary share of 25 pence of the Company on 31 December 2011 and 2012 as derived from the Stock Exchange Daily Official List were 134.5 pence and 144 pence respectively. During 2012 the middle market price of TT electronics plc Ordinary shares ranged between 114 pence and 203.5 pence.

Conclusion

Given the challenging macro economic conditions in all our geographic markets, the Group delivered reasonable results. In determining base salary adjustments, annual bonus and long term awards, the Committee has recognised the achievements of the management team.

Approved by the Board on 13 March 2013 and signed on its behalf by:

John Shakeshaft

Chairman of the Remuneration Committee

Directors' report – Governance

OTHER STATUTORY DISCLOSURES

Directors' report

This Annual Report includes the Directors' report and the audited financial statements for the year ended 31 December 2012. Certain information required to be disclosed in the Directors' report is provided in other sections of this Annual Report. This includes the overview, the operating and financial reviews, the corporate governance and remuneration reports and specific elements of the financial statements noted below and, accordingly, these are incorporated into the Directors' report by reference.

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 component and sensor technology for the defence, aerospace, medical, transportation, energy and industrial electronics markets. Further details of the Group's activities and future plans are set out in the overview and operating and financial review sections on pages 1 to 41 of this report.

The principal operating subsidiaries are listed on page 116.

Results and dividends

The Group's profit on ordinary activities after taxation was £23.5 million (2011: £25.0 million). The audited financial statements of the Group and the Company are set out on pages 70 to 116. Further details of the Group's activities are set out in the Operating and Financial review on pages 25 to 35.

The Directors are recommending a final dividend of 3.5 pence per share for the year ended 31 December 2012 (2011: 3.2 pence) to be paid on 30 May 2013 to shareholders on the register at 17 May 2013 which, together with the interim dividend of 1.5 pence per share paid on 1 November 2012 (2011: 1.2 pence), makes a total for the year of 5.0 pence (2011: 4.4 pence).

Acquisitions and disposals

On 31 July 2012, Dale Power Solutions Limited, part of the Secure Power division, was sold to LDC, a mid-market private equity house, for a consideration of £10.6 million (including settlement of inter-company debt of £4.7 million) subject to a balance sheet adjustment at completion.

On 8 December 2012, the sale of the remainder of the Group's Secure Power division (comprising the Ottomotores businesses based in Mexico and Brazil) to a subsidiary of Generac Holdings Inc was completed for a consideration of £29.0 million, subject to a balance sheet adjustment at completion.

On 12 December 2012, the UK business and assets of ACW Technology Limited (in administration) were acquired. The transfer of associated production from ACW Technology (Zhuhai) Limited to the TT electronics facility in Suzhou, China, was also agreed, the total consideration being £3.1 million.

On 24 December 2012, the Group agreed to purchase the 49 per cent minority interest in its Indian sensors business, Padmini TT electronics Private Limited, for a consideration of up to £8.7 million, depending on the attainment of certain targets. Completion took place on 1 February 2013, the actual consideration being £8.7 million.

Directors

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 are set out on page 52.

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 63. 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 start of the Annual General Meeting until its conclusion.

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.

Auditors

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 69 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 9 May 2013 at the offices of Hudson Sandler Financial and Corporate Communications 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 ended 31 December 2010 and, in the opinion of the Directors, the market value, on an existing use basis, as at 31 December 2012 in aggregate 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 15 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 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 46 days (2011: 52 days). The average number of days' credit taken by the Company for trade purchases at the financial year end was 38 days (2011: 60 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. Together with many other global companies operating in its sector, the Group is a member of the Electronic Industry Citizenship Coalition, a leading industry organisation promoting best practices in corporate responsibility, which is committed to raising standards of employee welfare in all jurisdictions and at all levels of the supply chain for electronic products. Further details on the Group's policies relating to its employees are given on page 40.

Donations

During the year the Group contributed £51,000 (2011: £58,000) 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 on pages 40 and 41. 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 25 pence each. All issued shares are fully paid. The share capital during the year is shown in note 24 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 General Counsel & 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.

Directors' report – Governance

OTHER STATUTORY DISCLOSURES CONTINUED

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 9 May 2013.

Purchase of own shares

At the Annual General Meeting held on 15 May 2012, the Company was given authority to purchase up to 15,525,822 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.

Shares held by the Employee Benefit Trust

The Company has established an employee benefit trust ("EBT"), the trustee of which is Sanne Trust Company Limited, part of Sanne Group. As at 31 December 2012, the trustee held 242,420 shares with a nominal value of £60,605 and an aggregate purchase price of £1.46 per share, representing 0.15 per cent of the total issued share capital at that date. These shares will be used to satisfy awards made under the TT electronics plc Restricted Share Plan ("RSP"), the TT electronics plc Long Term Incentive Plan ("LTIP") or other employee share schemes. The maximum number of shares held by the EBT during the year was 1,712,396, of which 1,567,256 were used to satisfy awards under the LTIP. 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.

Substantial shareholding notifications

The Company had been notified of the following voting rights attaching to TT electronics plc shares in accordance with the Disclosure and Transparency Rules at 11 March 2013 and 31 December 2012.

	11 March 2013 Number	**%**	31 Dec 2012 Number	%
J W Newman	**10,548,010**	**6.7**	10,548,010	6.7
Mondrian Investment Partners Limited	**7,912,306**	**5.1**	7,912,306	5.1
Blackrock, Inc	**8,156,492**	**5.1**	8,156,492	5.1
Tweedy, Browne Company LLC	**7,664,336**	**4.9**	7,664,336	4.9
Crystal Amber Fund Limited	**6,000,000**	**3.8**	6,000,000	3.8
Legal & General Group plc	**–**	**<3.0**	6,188,558	3.9

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.

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.

UK Corporate Governance Code

The Code is available to view at the website of the Financial Reporting Council, www.frc.org.uk.

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 13 March 2013 and signed on its behalf by:

Lynton Boardman

Group General Counsel & Company Secretary

Financial statements – Group accounts

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of Directors' responsibilities in respect of the Annual Report

The Directors are responsible for preparing the Annual Report. Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent 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 IFRSs as adopted by the EU; and
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its 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 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, Directors' remuneration report and a Directors' report on corporate governance that complies 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 UK 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

Each of the persons who is a Director at the date of approval of this report confirms that to the best of his or her knowledge:

- each of the Group and parent Company financial statements, prepared in accordance with IFRS and UK Accounting Standards respectively, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and
- the Directors' report on pages 1 to 67 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:

Lynton Boardman
Group General Counsel & Company Secretary

13 March 2013

Financial statements – Group accounts

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 2012 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 (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 Statement of Directors' responsibilities set out on page 68 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 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements 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 parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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 51 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 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

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

13 March 2013

Financial statements – Group accounts

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

£million (unless otherwise stated)	Note	2012	2011*
Continuing operations			
Revenue	3	**476.9**	509.6
Cost of sales		**(384.8)**	(407.8)
Gross profit		**92.1**	101.8
Distribution costs		**(32.7)**	(34.8)
Administrative expenses		**(34.8)**	(37.7)
Other operating income		**1.5**	1.7
Operating profit		**26.1**	31.0
Analysed as:			
Operating profit before exceptional items	3a	**29.4**	28.7
Exceptional items	8	**(3.3)**	2.3
Finance income	6	**21.0**	21.1
Finance costs	6	**(23.7)**	(25.3)
Profit before taxation		**23.4**	26.8
Taxation	9	**(6.2)**	(5.3)
Profit from continuing operations	7	**17.2**	21.5
Discontinued operations			
Profit from discontinued operations	5	**6.3**	3.5
Profit for the year attributable to owners of the Company		**23.5**	25.0
EPS attributable to owners of the Company – basic			
From continuing operations (p)	11	**11.0**	13.9
From discontinued operations (p)	11	**4.0**	2.2
		15.0	16.1
EPS attributable to owners of the Company – diluted			
From continuing operations (p)	11	**11.0**	13.6
From discontinued operations (p)	11	**4.0**	2.2
		15.0	15.8

* Re-presented for discontinued operations in accordance with IFRS

Financial statements – Group accounts

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

£million	Note	2012	2011
Profit for the year		**23.5**	25.0
Other comprehensive income/(loss) for the year after tax			
Exchange differences on translation of foreign operations		**(4.3)**	0.9
Tax on exchange differences		**0.1**	0.1
Loss on hedge of net investment in foreign operations		**(2.8)**	(0.6)
(Loss)/gain on cash flow hedges taken to equity less amounts taken to income statement		**(0.5)**	0.2
Foreign exchange gain on disposals taken to income statement	5	**(0.2)**	–
Actuarial loss on defined benefit pension schemes	23	**(5.7)**	(6.2)
Tax on actuarial amounts in pension deficit movement	22	**(0.1)**	(2.3)
Total comprehensive income for the year		**10.0**	17.1

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

Financial statements – Group accounts

CONSOLIDATED BALANCE SHEET

at 31 December 2012

£million	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	13	**85.9**	90.9
Goodwill	14	**65.2**	67.3
Other intangible assets	15	**13.2**	11.8
Deferred tax assets	22	**13.1**	21.0
Total non-current assets		**177.4**	191.0
Current assets			
Inventories	16	**68.2**	83.4
Trade and other receivables	17	**67.6**	85.6
Derivative financial instruments		**0.2**	0.5
Cash and cash equivalents		**59.1**	69.5
Total current assets		**195.1**	239.0
Total assets		**372.5**	430.0
LIABILITIES			
Current liabilities			
Borrowings	20	**3.8**	14.2
Derivative financial instruments		**–**	6.9
Trade and other payables	18	**99.9**	113.0
Income taxes payable		**12.5**	6.1
Provisions	19	**10.5**	6.4
Total current liabilities		**126.7**	146.6
Non-current liabilities			
Borrowings	20	**8.6**	40.1
Deferred tax liability	22	**2.4**	9.3
Pensions and other post-employment benefits	23	**36.8**	35.5
Provisions	19	**0.2**	0.2
Other non-current liabilities	18	**6.7**	6.9
Total non-current liabilities		**54.7**	92.0
Total liabilities		**181.4**	238.6
Net assets		**191.1**	191.4
EQUITY			
Share capital	24	**39.2**	38.8
Share premium	24	**0.7**	0.5
Share options reserve		**1.5**	3.6
Hedging and translation reserve	26	**19.5**	27.2
Retained earnings	27	**128.2**	119.3
Equity attributable to owners of the Company		**189.1**	189.4
Non-controlling interests		**2.0**	2.0
Total equity		**191.1**	191.4

Approved by the Board of Directors on 13 March 2013 and signed on their behalf by:

Geraint Anderson
Director

Shatish Dasani
Director

Financial statements – Group accounts

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

£million	Share capital	Share premium	Share options reserve	Hedging reserve	Translation reserve	Retained earnings	Sub-total	Non-controlling interest	Total
At 1 January 2011	38.8	0.4	1.6	(11.7)	38.3	109.7	177.1	2.0	179.1
Profit for the year	–	–	–	–	–	25.0	25.0	–	25.0
Other comprehensive income									
Exchange differences on translation of foreign operations	–	–	–	–	0.9	–	0.9	–	0.9
Tax on exchange differences	–	–	–	–	0.1	–	0.1	–	0.1
Net loss on hedge of net investment in foreign operations	–	–	–	–	(0.6)	–	(0.6)	–	(0.6)
Net gain on cash flow hedges taken to equity less amounts taken to income statement	–	–	–	0.2	–	–	0.2	–	0.2
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	(6.2)	(6.2)	–	(6.2)
Tax on actuarial amounts in pension deficit movement	–	–	–	–	–	(2.3)	(2.3)	–	(2.3)
Total other comprehensive income	–	–	–	0.2	0.4	(8.5)	(7.9)	–	(7.9)
Transactions with owners recorded directly in equity									
Equity dividends paid by the Company	–	–	–	–	–	(5.0)	(5.0)	–	(5.0)
Change in fair value of minority put option	–	–	–	–	–	(1.9)	(1.9)	–	(1.9)
Share-based payments	–	–	1.7	–	–	–	1.7	–	1.7
Deferred tax on share-based payments	–	–	0.3	–	–	–	0.3	–	0.3
New shares issued	–	0.1	–	–	–	–	0.1	–	0.1
At 31 December 2011	38.8	0.5	3.6	(11.5)	38.7	119.3	189.4	2.0	191.4
Profit for the year	–	–	–	–	–	23.5	**23.5**	**–**	**23.5**
Other comprehensive income									
Exchange differences on translation of foreign operations	–	–	–	–	(4.3)	–	**(4.3)**	**–**	**(4.3)**
Tax on exchange differences	–	–	–	–	0.1	–	**0.1**	**–**	**0.1**
Net loss on hedge of net investment in foreign operations	–	–	–	–	(2.8)	–	**(2.8)**	**–**	**(2.8)**
Net loss on cash flow hedges taken to equity less amounts taken to income statement	–	–	–	(0.5)	–	–	**(0.5)**	**–**	**(0.5)**
Foreign exchange gain on disposals taken to income statement	–	–	–	–	(0.2)	–	**(0.2)**	**–**	**(0.2)**
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	(5.7)	**(5.7)**	**–**	**(5.7)**
Tax on actuarial amounts in pension deficit movement	–	–	–	–	–	(0.1)	**(0.1)**	**–**	**(0.1)**
Total other comprehensive income	–	–	–	(0.5)	(7.2)	(5.8)	**(13.5)**	**–**	**(13.5)**
Transactions with owners recorded directly in equity									
Equity dividends paid by the Company	–	–	–	–	–	(7.3)	**(7.3)**	**–**	**(7.3)**
Change in fair value of minority financial liability	–	–	–	–	–	(1.1)	**(1.1)**	**–**	**(1.1)**
Share-based payments	–	–	(1.3)	–	–	–	**(1.3)**	**–**	**(1.3)**
Deferred tax on share-based payments	–	–	(0.8)	–	–	–	**(0.8)**	**–**	**(0.8)**
New shares issued	0.4	0.2	–	–	–	(0.4)	**0.2**	**–**	**0.2**
At 31 December 2012	**39.2**	**0.7**	**1.5**	**(12.0)**	**31.5**	**128.2**	**189.1**	**2.0**	**191.1**

Financial statements – Group accounts

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2012

£million	Note	2012	2011*
Cash flows from operating activities			
Profit for the year		**23.5**	25.0
Taxation		**6.2**	6.3
Net finance costs		**2.7**	4.2
Exceptional items		**3.3**	(2.3)
Profit from discontinued operations		**(6.3)**	(4.5)
Operating profit from continuing operations before exceptional items		**29.4**	28.7
Adjustments for:			
Depreciation of property, plant and equipment	13	**15.8**	16.0
Amortisation of intangible assets	15	**4.6**	7.6
Impairment of intangible assets	15	**0.1**	0.6
Other items		**(1.0)**	(2.0)
Increase in inventories		**(3.5)**	(3.8)
Decrease in receivables		**1.1**	7.8
(Decrease) / increase in payables		**(1.1)**	6.7
Operating cash flow from continuing operations before exceptional payments		**45.4**	61.6
Operating cash flow from acquisitions and discontinued operations		**(8.5)**	1.4
Special payments to pension funds		**(3.7)**	(3.5)
Exceptional costs		**(4.1)**	(2.2)
Net cash generated from operations		**29.1**	57.3
Net income taxes paid		**(2.3)**	(7.9)
Net cash flow from operating activities		**26.8**	49.4
Cash flows from investing activities			
Interest received		**0.6**	0.3
Purchase of property, plant and equipment	13	**(18.7)**	(21.3)
Proceeds from sale of property, plant and equipment and grants received		**0.3**	2.0
Development expenditure	15	**(4.8)**	(5.3)
Purchase of other intangibles	15	**(1.3)**	(0.3)
Acquisitions of businesses		**(3.0)**	–
Disposal of subsidiaries (£39.6m consideration less £2.3m of disposal costs add £6.6m of overdrafts in subsidiaries at date of disposal)		**43.9**	7.6
Deferred consideration received		**0.2**	0.7
Net cash flow from/(used in) investing activities		**17.2**	(16.3)
Cash flows from financing activities			
Issue of share capital	24	**0.2**	0.1
Interest paid		**(2.0)**	(2.4)
Repayment of borrowings		**(62.0)**	(11.1)
Proceeds from borrowings		**30.6**	0.2
Other items	25	**(2.4)**	–
Finance leases		**(0.1)**	(0.1)
Dividends paid by the Company		**(7.3)**	(5.0)
Net cash flow used in financing activities		**(43.0)**	(18.3)
Net increase in cash and cash equivalents		**1.0**	14.8
Cash and cash equivalents at beginning of year	28	**58.8**	44.2
Exchange differences	28	**(0.7)**	(0.2)
Cash and cash equivalents at end of year	28	**59.1**	58.8
Cash and cash equivalents comprise			
Cash at bank and in hand		**59.1**	69.5
Bank overdrafts	20	**–**	(10.7)
		59.1	58.8

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

* Re-presented for discontinued operations in accordance with IFRS

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 70 to 110 have been prepared using consistent accounting policies, except for the adoption of new accounting standards and interpretations noted below. No revisions to Adopted IFRS that became applicable in 2012 had a significant impact on the Group's financial statements.

b) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2012 and the Group's financial performance for the year ended 31 December 2012.

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. During the year ended 31 December 2012 the Secure Power division has been re-presented as a discontinued operation (see note 5).

d) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set on pages 6 to 33. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 34 to 35. In addition, note 21 to the financial statements includes 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 had a net cash balance of £46.7 million at 31 December 2012 (2011: £15.2 million), with available financial headroom of £192.4 million. Given the considerable financial resources available, together with long-term partnerships with a number of key customers and suppliers across different geographic areas and industries, 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. Further details are contained in the Directors' report on page 51.

e) New standards and interpretations not yet adopted

There were no revisions to adopted IFRSs which became applicable in 2012 that had a significant impact on the Group's financial statements. Standards and interpretations issued by the IASB are only applicable if endorsed by the EU. The following will be applicable in the future and will have an impact on the Group:

Amendments to IAS 19 "Employee Benefits": the principal change is that the financing on post-retirement benefits is calculated on the net surplus or deficit using an 'AA' corporate bond rate and the recognition of administrative expenses. It will not be permissible to recognise administrative expenses relating directly to the administration of defined benefit pension schemes as a deduction to the expected return on scheme assets within net finance costs, with the costs instead being recognised as administrative expenses in the income statement. Had the revisions to IAS 19 been adopted during the year ended 31 December 2012, operating profit would have decreased by £0.7 million and net financing costs increased by £0.7 million.

The Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

Financial statements – Group accounts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 Basis of preparation (continued)

f) Change in accounting policies

There have been no changes to accounting policies during the year.

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 4 – Acquisitions. The fair value of assets and liabilities acquired through business combination have been provisionally determined at the date of acquisition;
- Note 14 – 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 14 outlines the significant assumptions made in performing the impairment tests;
- Note 15 –Other intangible assets. The recoverability of capitalised development costs is dependent on assessments of the future commercial viability of the relevant products and processes;
- Note 19 – Provisions. The Group makes appropriate provision on a consistent basis for risks of product liability, litigation, restructuring, credit risk and other normal trading exposures with estimates being made regarding the timing of future payments;
- Note 22 – Deferred tax. The recognition of deferred tax assets is dependent on assessments of future taxable income in the relevant countries concerned; and
- Note 23 – 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 23.

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 Consolidated income statement except for the goodwill already charged to reserves.

Negative goodwill arising on the acquisition of a business is credited to the Consolidated income statement on acquisition.

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.

2 Summary of significant accounting policies (continued)

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	5 years
Customer relationships	3 to 8 years
Software	3 to 5 years

Amortisation is charged on a straight-line basis.

With effect from 1 July 2012 the amortisation period for product development costs was changed from 3 years to 5 years, as this more accurately reflects the useful economic lifetime of the underlying products. Had the amortisation period remained at 3 years, the amortisation charge for the year ended 31 December 2012 would have increased by £1.7 million.

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 ready for use 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 depreciation rates of assets are as follows:

Freehold buildings	2%
Leasehold buildings	2% (or over the period of the lease if less than 50 years)
Plant and equipment	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.

Financial statements – Group accounts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 substantively 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.

2 Summary of significant accounting policies (continued)

n) Employee benefits

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

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

Financial statements – Group accounts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies (continued)

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.

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 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.

x) Business combinations

Business combinations are accounted for using the acquisition method. Goodwill on business combinations is recognised as the fair value of the consideration transferred less the fair value of the identifiable assets and liabilities acquired, and is recognised as an asset in the consolidated Balance Sheet. Costs relating to the acquisition are recognised as expenses in the consolidated income statement as incurred.

3 Segmental reporting

For management purposes, the Group is organised into three divisions, as shown below, according to the nature of the products and services provided. Each of these divisions represents an operating segment 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; and
- Integrated Manufacturing Services – the provision of global electronics manufacturing capability with logistics and integrated solutions.

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

The Group disposed of the Secure Power division during 2012, with the disposal of Dale Power Solutions Limited in July 2012 and the disposal of Ottomotores SA de CV and Ottomotores Do Brasil Energia Ltda in December 2012. This division is shown as a discontinued operation in these financial statements and the 2011 comparative amounts have been re-presented accordingly.

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 and is reviewed by the chief operating decision maker.

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

				2012
£million	**Components**	**Sensors**	**Integrated Manufacturing Services**	**Total**
Sales to external customers	**226.0**	**148.2**	**102.7**	**476.9**
Segment operating profit before exceptional items	**14.8**	**8.4**	**6.2**	**29.4**
Exceptional items				**(3.3)**
Operating profit				**26.1**
Net finance costs				**(2.7)**
Profit before taxation				**23.4**

				2011 (re-presented)
£million	Components	Sensors	Integrated Manufacturing Services	Total
Sales to external customers	242.7	166.9	100.0	509.6
Segment operating profit before exceptional items	14.8	8.8	5.1	28.7
Exceptional items				2.3
Operating profit				31.0
Net finance costs				(4.2)
Profit before taxation				26.8

There are no significant sales between segments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Segmental reporting (continued)

b) Segment assets

	Assets		Liabilities	
£million	**2012**	2011 (re-presented)	**2012**	2011 (re-presented)
Components	**157.3**	168.1	**50.8**	48.4
Sensors	**87.1**	78.9	**30.5**	31.3
Integrated Manufacturing Services	**55.7**	45.5	**36.6**	22.0
Segment assets and liabilities	**300.1**	292.5	**117.9**	101.7
Assets and liabilities of discontinued operations	**–**	46.6	**–**	24.6
Pensions and other post-employment benefits	**–**	–	**36.8**	35.5
Unallocated assets and liabilities	**72.4**	90.9	**26.7**	76.8
Total assets/liabilities	**372.5**	430.0	**181.4**	238.6

	Capital expenditure		Depreciation and amortisation	
£million	**2012**	2011 (re-presented)	**2012**	2011 (re-presented)
Components	**9.9**	11.0	**8.3**	9.3
Sensors	**13.3**	12.8	**10.8**	12.8
Integrated Manufacturing Services	**1.2**	1.7	**1.3**	1.4
Total continuing operations	**24.4**	25.5	**20.4**	23.5
Discontinued operations	**0.4**	1.4	**0.5**	1.0
Total	**24.8**	26.9	**20.9**	24.5

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	**2012**	2011 (re-presented)
United Kingdom	**78.3**	79.4
Rest of Europe	**234.6**	250.1
North America	**95.4**	104.1
Central and South America	**3.2**	4.4
Asia	**62.0**	70.5
Rest of the World	**3.4**	1.1
Total continuing operations	**476.9**	509.6

No individual customer directly 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.

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	2012	2011
United Kingdom	**25.0**	27.2
Rest of Europe	**53.4**	52.4
North America	**71.7**	75.2
Central and South America	**3.9**	6.6
Asia	**10.3**	8.6
	164.3	170.0

4 Acquisitions

On 12 December 2012 the Group acquired the majority of the UK business and assets of ACW Technology Limited for a consideration of £3.0 million in cash with £0.1 million of consideration being deferred until 2013. Acquisition costs of £0.4 million were incurred and have been recognised within administrative expenses and treated as an exceptional item in the income statement.

From the date of acquisition to the year end, the business contributed £0.9 million of revenue, an operating loss of £0.1 million to the Group's results and an operating cash outflow of £0.4 million. If the acquisition had occurred on 1 January 2012 it is estimated that Group revenue would have increased by £31.7 million and Group operating profit would have increased by £1.4 million.

The fair values of the identifiable assets and liabilities acquired are as follows:

£million	Book value at date of acquisition	Fair value adjustments (provisional)	Fair value at date of acquisition (provisional)
Non-current assets			
Property, plant and equipment	0.5	(0.2)	**0.3**
Current assets/(liabilities)			
Inventory	6.1	(1.6)	**4.5**
Trade and other receivables	3.8	–	**3.8**
Trade and other payables	(5.2)	–	**(5.2)**
	5.2	(1.8)	**3.4**
Consideration paid/payable			
Cash			**3.0**
Deferred consideration			**0.1**
Negative goodwill			**(0.3)**

As the fair value of the net assets acquired exceeds the consideration payable, negative goodwill of £0.3 million has been recognised within other operating income in the income statement.

No deferred tax asset has been recognised on the fair value adjustment to the assets and liabilities acquired as it is currently considered unlikely that this asset could be utilised against future taxable profits of entities in the UK.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5 Discontinued operations

On 31 July 2012 the Group disposed of Dale Power Solutions Limited for total consideration of £10.6 million in cash before costs.

On 7 December 2012 the Group disposed of Ottomotores SA de CV and Ottomotores Do Brasil Energia Ltda for total consideration of $46.5 million (£29.0 million) in cash before costs, and is subject to a final adjustment once the completion balance sheets have been agreed.

Following the disposal of these businesses the Secure Power division has been treated as discontinued.

During the year ended 31 December 2011 the Group disposed of AEI Compounds Limited, for consideration of £8.6 million in cash before costs. Discontinued operations during 2011 include both the Secure Power division and AEI Compounds Limited.

The results from discontinued operations shown in the consolidated income statement are as follows:

£million	2012	2011 (re-presented)
Revenue	**68.8**	94.1
Cost of sales	**(56.7)**	(76.6)
Gross profit	**12.1**	17.5
Distribution costs	**(4.4)**	(6.1)
Administrative expenses	**(4.6)**	(5.9)
Operating profit	**3.1**	5.5
Exceptional items	**(0.6)**	–
Net finance costs	**(0.4)**	(0.5)
Profit on disposal of discontinued operations	**6.8**	0.5
Profit before taxation	**8.9**	5.5
Taxation	**(2.6)**	(2.0)
Profit from discontinued operations	**6.3**	3.5

The profit on disposal of discontinued operations is analysed below:

£million	2012	2011
Gross cash received	**39.6**	8.6
Less: legal and professional costs	**(2.3)**	(0.5)
Less: overdrafts/(cash) disposed of at completion	**6.6**	(0.5)
Net proceeds per consolidated cash flow statement	**43.9**	7.6
Deferred consideration receivable	**–**	0.2
Less: net assets at completion	**(37.3)**	(7.3)
Add: foreign exchange gain on disposals	**0.2**	–
	6.8	0.5

5 Discontinued operations (continued)

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

£million	2012	2011 (re-presented)
Operating activities	(8.1)	1.4
Investing activities	(0.9)	(0.7)
Financing activities	(0.2)	2.5
Net cash flow	**(9.2)**	3.2

6 Finance income and finance costs

£million	2012	2011 (re-presented)
Interest expense	1.6	2.2
Foreign exchange losses	1.6	1.8
Interest on employee obligations	19.0	20.0
Amortisation of arrangement fees	0.8	0.6
Unwinding of discount factor on minority financial liability	0.7	0.7
Finance costs	**23.7**	25.3
Interest income	0.6	0.5
Foreign exchange gains	1.9	1.6
Expected return on pension scheme assets	18.5	19.0
Finance income	**21.0**	21.1
Net finance costs	**2.7**	4.2

7 Profit for the year

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

£million	2012	2011 (re-presented)
Depreciation of property, plant and equipment	15.8	15.8
Amortisation of intangible assets	4.6	7.6
Net foreign exchange (gains)/losses	(0.1)	1.8
Cost of inventories recognised as an expense	378.9	405.2
Staff costs (see note 12)	143.1	145.8
Remuneration of Group Auditors		
– Company and consolidation statutory audits	0.2	0.2
– statutory audit of subsidiaries	0.6	0.5
– tax services	0.3	0.1
– other services	–	0.1
Government grants credited	(0.8)	(0.7)
Share-based payments	1.2	1.7

Other operating income includes £0.1 million (2011: £0.4 million) of profit on the disposal of property, plant and equipment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8 Exceptional items

£million	2012	2011
Continuing operations		
Reduction in UK pension liabilities	–	7.5
Restructuring costs	(3.2)	(5.2)
Negative goodwill on business acquisition	0.3	–
Acquisition costs	(0.4)	–
Total	(3.3)	2.3

a) Year ended 31 December 2012

For the year ended 31 December 2012, the exceptional items relate to:

- Restructuring costs of £3.2 million associated with:
  - – the closure of the Components operation in Boone, North Carolina of £2.1 million;
  - – the transfer of certain production lines from the Sensors division facilities to Romania of £0.2 million;
  - – redundancy costs of £0.4 million; and
  - – costs associated with the post-acquisition restructuring of ACW Technology Limited of £0.5 million.
- Negative goodwill arising on the acquisition of the trade and assets of ACW Technology Limited of £0.3 million; and
- £0.4 million of acquisition-related legal and professional fees.

b) Year ended 31 December 2011

For the year ended 31 December 2011, the exceptional items relate to:

- a one-off reduction of £7.5 million in the future liabilities of the UK pension scheme following the UK Government's announcement to change the basis of indexation of occupational pension schemes from RPI to CPI (see note 23); and
- restructuring costs of £5.2 million primarily associated with the closure of the Components operation in Boone, North Carolina. This amount includes impairments of fixed assets of £1.8 million, provisions against inventory of £0.6 million and reorganisation provisions of £2.8 million.

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.

9 Taxation

a) Analysis of the tax charge for the year

£million	2012	2011 (re-presented)
Current tax		
Current income tax charge	**6.7**	7.7
Adjustments in respect of current income tax of previous year	**0.4**	(0.1)
Total current tax charge	**7.1**	7.6
Deferred tax		
Relating to origination and reversal of temporary differences	**(0.9)**	(2.3)
Total tax charge in the income statement – continuing operations	**6.2**	5.3

UK tax is calculated at 24.5% (2011: 26.5%) 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 26.5% (26.2% excluding exceptional items).

Included within the £0.9 million deferred tax credit for 2012 is £0.8 million relating to exceptional items.

b) Reconciliation of the total tax charge for the year

£million	2012	2011 (re-presented)
Profit before tax from continuing operations	**23.4**	26.8
Profit before tax multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	**5.7**	7.1
Effects of:		
Items not deductible for tax purposes or income not taxable	**1.8**	4.3
Adjustment to current tax in respect of prior periods	**0.4**	(0.1)
Recognition and utilisation of previously unrecognised tax losses	**(2.0)**	(4.2)
Current year tax losses and other items not recognised	**0.5**	0.2
Overseas tax rate differences	**0.7**	(0.5)
Other timing differences – exceptional items	**(0.8)**	(1.6)
– other	**(0.1)**	0.1
Total tax charge reported in the income statement – continuing operations	**6.2**	5.3

The 2010 Emergency Budget and the 2012 Budget announced that the UK corporation tax rate will reduce from 28% to 22% over a period of four years from 2011. The reduction to 23%, effective from 1 April 2013, was substantively enacted on 17 July 2012. As the rate change to 23% was substantively enacted prior to the year end, the closing deferred tax assets and liabilities have been calculated at this rate. 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. Accordingly, in 2012 £1.3 million has been charged directly to equity and £0.1 million has been charged to the income statement.

Had the further tax rate changes been substantively enacted on or before the balance sheet date it would have had the effect of reducing the deferred tax asset by £0.4 million.

10 Dividends

	2012 pence per share	2012 £million	2011 pence per share	2011 £million
Final dividend for prior year	**3.2**	**5.0**	2.0	3.1
Interim dividend for current year	**1.5**	**2.3**	1.2	1.9
	4.7	**7.3**	3.2	5.0

The Directors recommend a final dividend of 3.5p which when combined with the interim dividend of 1.5p gives a total dividend for the year of 5.0p 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 30 May 2013 to shareholders on the register on 17 May 2013.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11 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 156.1 million (2011: 154.9 million).

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

Pence	2012	2011 (re-presented)
Basic earnings per share		
Continuing operations	**11.0**	13.9
Discontinued operations	**4.0**	2.2
Total	**15.0**	16.1

Pence	2012	2011 (re-presented)
Diluted earnings per share		
Continuing operations	**11.0**	13.6
Discontinued operations	**4.0**	2.2
Total	**15.0**	15.8

The numbers used in calculating headline, basic and diluted earnings per share are shown below.

Headline earnings per share

£million	2012	2011 (re-presented)
Continuing operations		
Profit for the period attributable to owners of the Company	**17.2**	21.5
Exceptional items	**3.3**	(2.3)
Tax effect of exceptional items (see note 9a)	**(0.8)**	(1.6)
Headline earnings	**19.7**	17.6
Headline earnings per share (pence)	**12.6**	11.4

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

Million	2012	2011
Basic	**156.1**	154.9
Adjustment for share awards	**0.8**	3.6
Diluted	**156.9**	158.5

12 Employee information

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

Number	2012	2011 (re-presented)
By function		
Production	**4,791**	4,879
Sales and distribution	**330**	285
Administration	**343**	324
	5,464	5,488
By division		
Components	**3,150**	3,247
Sensors	**1,138**	1,092
Integrated Manufacturing Services	**1,176**	1,149
Total continuing operations	**5,464**	5,488

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

£million	2012	2011 (re-presented)
Wages and salaries	**113.4**	116.3
Social security charges	**27.8**	27.5
Employers' pension costs	**1.9**	2.0
	143.1	145.8

Remuneration in respect of the Directors was as follows:

£million	2012	2011
Emoluments	**1.5**	1.8

Further details of individual Directors' remuneration, pension benefits and share awards are shown in the Directors' remuneration report on pages 55 to 63.

Key management personnel

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

£million	2012	2011
Short-term benefits	**3.4**	3.8
Termination payments	**0.1**	–
Post-employment benefits	**0.2**	0.2
Share-based payments	**0.8**	0.9
	4.5	4.9

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 other members of the Operating Board. 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 Remuneration report.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13 Property, plant and equipment

£million	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2011	61.3	295.8	357.1
Additions	1.5	19.8	21.3
Disposals	(0.7)	(9.8)	(10.5)
Disposal of subsidiaries	(0.1)	(5.5)	(5.6)
Net exchange adjustment	(0.5)	(1.9)	(2.4)
At 1 January 2012	61.5	298.4	359.9
Additions	1.6	17.1	18.7
Businesses acquired	–	0.3	0.3
Disposals	(3.2)	(20.5)	(23.7)
Disposal of subsidiaries	(4.3)	(5.3)	(9.6)
Net exchange adjustment	(1.3)	(7.0)	(8.3)
At 31 December 2012	**54.3**	**283.0**	**337.3**
Depreciation and impairment			
At 1 January 2011	17.7	245.9	263.6
Depreciation charge	2.5	14.4	16.9
Impairment	1.7	0.1	1.8
Disposals	(0.1)	(9.0)	(9.1)
Disposal of subsidiaries	–	(2.6)	(2.6)
Net exchange adjustment	(0.1)	(1.5)	(1.6)
At 1 January 2012	21.7	247.3	269.0
Depreciation charge	1.7	14.6	16.3
Impairment	0.6	–	0.6
Disposals	(3.2)	(20.3)	(23.5)
Disposal of subsidiaries	(1.1)	(3.8)	(4.9)
Net exchange adjustment	(0.4)	(5.7)	(6.1)
At 31 December 2012	**19.3**	**232.1**	**251.4**
Net book value			
At 31 December 2012	**35.0**	**50.9**	**85.9**
At 31 December 2011	39.8	51.1	90.9

Included within land and buildings are three (2011: two) investment properties with a carrying value of £1.3 million (2011: £0.7 million). The fair value of these properties is £6.2 million (2011: £5.5 million).

The carrying amount of land and buildings includes £0.2 million (2011: £0.3 million) in respect of assets held under finance leases.

No borrowing costs were capitalised by the Group during the year (2011: £nil) as no significant qualifying assets commenced construction after 1 January 2011.

The depreciation charge for the year allocated to continuing operations is £15.8 million (2011: £15.8 million) and discontinued operations £0.5 million (2011: £1.1 million). The impairment charge of £0.6 million is allocated to discontinued operations.

14 Goodwill

	£million
Cost	
At 1 January 2011	66.9
Net exchange adjustment	0.4
At 1 January 2012	67.3
Net exchange adjustment	(2.1)
At 31 December 2012	**65.2**

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

	£million
Components:	
BI Technologies, USA	28.1
Optek Technology, USA	17.7
New Chapel Electronics, UK	3.4
Semelab, UK	2.3
Integrated Manufacturing Services:	
TT electronics integrated manufacturing services, USA	7.8
TT electronics integrated manufacturing services, Suzhou	5.2
Other	0.7

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 Goodwill (continued)

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 2.5% for the UK businesses and 3.0% for the US and Chinese businesses (2011: 3.0% for the UK, US and Chinese businesses). 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 discount rates used to discount the forecast cash flows are:

	2012	2011
UK businesses	7.6%	8.0%
US businesses	10.0%	10.5%
Chinese business	11.5%	11.5%

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

The goodwill allocated to each of BI Technologies, Optek Technology, TT electronics integrated manufacturing services, USA, New Chapel Electronics and Semelab are considered to be individually significant. After translation using year end foreign exchange rates, these CGUs represent 91% or £59.3 million (2011: 91% or £61.5 million) of the total goodwill balance.

The recoverable amounts exceed the total carrying value of assets for the CGUs by the following amounts:

£million	2012	2011
BI Technologies	6.2	12.8
Optek Technology	8.7	13.8
TT electronics integrated manufacturing services, USA	3.2	11.2
New Chapel	1.5	1.5
Semelab	1.3	7.9

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.

A key assumption in the value in use test is the projected performance of the companies based on cash flow forecasts. The recoverable amounts associated with the goodwill balances are based on these performance projections, and based on current forecast information do not indicate that any goodwill balance is impaired. If a company's actual performance does not meet these projections this could lead to an impairment of the goodwill in future periods.

Other key assumptions and sensitivities are as follows:

Long-term growth rate

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 growth would need to decrease annually by the following amounts for the carrying values to be impaired:

	2012	2011
BI Technologies	1.9%	3.6%
Optek Technology	3.4%	4.9%
TT electronics integrated manufacturing services, USA	1.4%	6.1%
New Chapel	2.4%	3.7%
Semelab	0.7%	0.2%

14 Goodwill (continued)

Discount rate

Sensitivity analysis has determined that the discount rate of 10.0% in the US and 7.6% in the UK is an influential assumption on the outcome of the recoverable amount calculation. For the carrying values to be impaired, the discount rate would need to increase to the following amounts:

	2012	2011
BI Technologies	**11.3%**	13.3%
Optek Technology	**13.9%**	15.9%
TT electronics integrated manufacturing services, USA	**11.6%**	16.6%
New Chapel	**9.2%**	9.9%
Semelab	**8.2%**	13.2%

Cash flows

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 values to be impaired the expected cash flows for every year would need to reduce by the following:

	2012	2011
BI Technologies	**13%**	23%
Optek Technology	**30%**	36%
TT electronics integrated manufacturing services, USA	**17%**	41%
New Chapel	**20%**	22%
Semelab	**11%**	42%

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15 Other intangible assets

£million	Product development costs	Patents, licences and other	Customer relationships	Total
Cost				
At 1 January 2011	23.7	5.4	3.5	32.6
Additions	5.3	0.3	–	5.6
Disposals	(11.1)	–	–	(11.1)
Disposal of subsidiaries	(0.1)	–	–	(0.1)
Net exchange adjustment	(0.3)	(0.1)	–	(0.4)
At 1 January 2012	17.5	5.6	3.5	26.6
Additions	4.8	1.3	–	6.1
Net exchange adjustment	(0.4)	–	–	(0.4)
At 31 December 2012	**21.9**	**6.9**	**3.5**	**32.3**
Amortisation				
At 1 January 2011	13.5	2.4	2.0	17.9
Charge for the year	6.7	0.6	0.3	7.6
Impairment	0.6	–	–	0.6
Disposals	(11.1)	–	–	(11.1)
Disposal of subsidiaries	(0.1)	–	–	(0.1)
Net exchange adjustment	(0.1)	–	–	(0.1)
At 1 January 2012	9.5	3.0	2.3	14.8
Charge for the year	3.6	0.7	0.3	4.6
Impairment	0.1	–	–	0.1
Net exchange adjustment	(0.3)	–	(0.1)	(0.4)
At 31 December 2012	**12.9**	**3.7**	**2.5**	**19.1**
Net book value				
At 31 December 2012	**9.0**	**3.2**	**1.0**	**13.2**
At 31 December 2011	8.0	2.6	1.2	11.8

With effect from 1 July 2012 the amortisation period for product development costs was changed from 3 years to 5 years, as this more accurately reflects the useful economic lifetime of the underlying products. Had the amortisation period remained at 3 years, the amortisation charge for the year ended 31 December 2012 would have increased by £1.7 million.

16 Inventories

£million	2012	2011
Raw materials	**31.4**	40.9
Work in progress	**19.0**	22.8
Finished goods	**17.8**	19.7
	68.2	83.4

Inventories are stated after deduction of a provision for slow moving and obsolete items of £25.8 million (2011: £27.8 million).

17 Trade and other receivables

£million	2012	2011
Trade receivables	**50.5**	69.1
Prepayments	**9.7**	9.5
Other receivables	**7.4**	7.0
	67.6	85.6

Provisions for impairment in respect of trade receivables are shown in note 21(d)(ii).

18 Trade and other payables

£million	2012	2011
Current liabilities		
Trade payables	**50.4**	57.6
Taxation and social security	**3.1**	5.2
Other payables, accruals and deferred income	**38.2**	50.2
Financial liability to settle minority interest	**8.2**	–
	99.9	113.0

£million	2012	2011
Non-current liabilities		
Accruals and deferred income	**6.2**	6.9
Financial liability to settle minority interest	**0.5**	–
	6.7	6.9

19 Provisions

£million	Reorganisation	Legal and other	Total
At 1 January 2011	1.1	2.0	3.1
Utilised	(2.2)	(0.5)	(2.7)
Arising during the year	2.8	3.4	6.2
At 1 January 2012	1.7	4.9	6.6
Utilised	(0.9)	(0.1)	(1.0)
Arising during the year	0.4	4.7	5.1
At 31 December 2012	**1.2**	**9.5**	**10.7**

The reorganisation provision primarily relates to the restructuring programme associated with the closure of the Boone, North Carolina operations and the post-acquisition restructuring of the ACW Technology Limited business. Legal and other claims represent the best estimate for the cost of settling outstanding product and other claims, and warranty provisions issued on the disposal of businesses.

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

£million	2012	2011
Non-current	**0.2**	0.2
Current	**10.5**	6.4
	10.7	6.6

The timing of the utilisation of these amounts is uncertain as they are subject to commercial negotiation and legal process in different jurisdictions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20 Borrowings

£million	Maturity	Currency of denomination	Current	Non-current	Total
31 December 2012					
£45 million multi-currency revolving credit facility	**2017**	**GBP**	**–**	**1.0**	**1.0**
$30 million USD bilateral revolving credit facility	**2017**	**USD**	**–**	**6.8**	**6.8**
$10 million USD bilateral revolving credit facility	**2017**	**USD**	**–**	**0.6**	**0.6**
AB Mikroelektronik GmbH loan	**2015**	**Euro**	**3.9**	**0.7**	**4.6**
Finance leases			**0.1**	**0.1**	**0.2**
Loan arrangement fee			**(0.2)**	**(0.6)**	**(0.8)**
Total			**3.8**	**8.6**	**12.4**
31 December 2011					
£60 million multi-currency club facility	2013	GBP/USD	–	39.8	39.8
AB Mikroelektronik GmbH loan	2011	Euro	4.0	0.3	4.3
Overdrafts			10.7	–	10.7
Finance leases			0.1	0.2	0.3
Loan arrangement fee			(0.6)	(0.2)	(0.8)
Total			14.2	40.1	54.3

In August 2012, the Group agreed a new five year committed revolving credit facility of £70 million and a further incremental accordion facility of £42 million with a club of four banks comprising HSBC, The Royal Bank of Scotland, Santander UK and Barclays Bank, as well as two separate bi-lateral agreements with Fifth Third Bank and Comerica Bank, both within the USA. At 31 December 2012 £8.4 million of the revolving credit facility was drawn down and the accordion facility was undrawn. Arrangement fees with a gross cost before amortisation of £0.9 million, and amortised cost of £0.8 million, have been netted off against these borrowings in accordance with IFRS.

The interest margin payable on the facility is based on the Group's compliance with financial covenants (net debt/EBITDA before exceptional items) and is payable on a floating basis above £LIBOR or $LIBOR depending on the currency of denomination of the loan.

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

During December 2012, proceeds from the disposal of Ottomotores SA de CV and Ottomotores Do Brasil Energia Ltda were used to repay part of the revolving credit facilities.

Undrawn facilities

At 31 December 2012, the total borrowing facilities available to the Group amounted to £145.7 million (2011: £102.3 million). At 31 December 2012, the Group had available £61.6 million (2011: £33.2 million) of undrawn committed borrowing facilities and £71.1 million (2011: £14.8 million) of undrawn uncommitted borrowing facilities, representing overdraft lines and the accordion facility.

21 Financial risk management

The financial information disclosed in the tables relating to the year ended 31 December 2012 represents continuing operations only.

The main risks arising from the Group's financial instruments are foreign exchange risk, interest rate risk, credit risk, liquidity risk and commodity price 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, under the oversight of a Tax and Treasury Committee which is chaired by the Group Finance Director. The responsibilities of the Group's Treasury department include 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.

A Group Treasury policy has been approved by the Board of Directors and is periodically updated to reflect developments in the financial markets and the financial exposure facing the Group. The Group's Treasury and internal audit departments monitor compliance with the Treasury Policy on a regular basis.

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, interest rates and commodity prices. 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 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 average rate forward currency hedges to mitigate translational foreign exchange risk taking into account the level of forecast profits in foreign currencies, natural hedges and the cost of taking out cover. During 2012, the Group took out average rate forward contracts hedging GBP against a portion of US dollar and euro forecast cash flows for 2012 and 2013. In 2012, the Group generated a profit of £0.8 million on the hedges that matured in 2012, and at 31 December 2012 the mark to market position of the 2013 hedges stood at £nil.

In light of the current economic environment in the Eurozone economy, the Tax and Treasury Committee has undertaken an assessment of the sensitivity of the Group's euro-denominated assets, liabilities and transactional activity to a variety of potential changes to the Eurozone economy and consequential impact on the euro, and has considered the financial and operational consequences of such changes. Mitigating actions have been put in place through the use of GBP/euro cash flow hedges to mitigate the impact of any downside risk arising from the Eurozone uncertainty and these hedges are constantly monitored by the Tax and Treasury Committee.

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 when appropriate. Given the current low levels of interest rates no interest rate derivatives were outstanding at the year end.

Commodity prices continued to exhibit significant volatility throughout 2012. During 2012, the Group took out non-deliverable hedges against a portion of the commodity purchases for 2012 and 2013. In 2012 the Group broke even on the hedges that matured during 2012, and at 31 December 2012 the mark to market position of the outstanding hedges stood at a profit of £0.1 million which has been recognised in equity.

The forward currency contracts and commodity hedges have been designated as cash flow hedges and the mark to market valuation of these derivatives at 31 December 2012 is taken to the hedging reserve within equity. At 31 December 2012, the Group had a net derivative financial asset of £0.2 million (2011: net derivative financial liability of £6.4 million).

Included within derivative financial liabilities at 31 December 2011 was a cash settled put and call option associated with a minority interest on one of the Group's subsidiaries of £6.9 million. This option could be exercised by either party within a five year window commencing in September 2012. 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 have been reflected as a movement in reserves. An interest expense on the financial liability has been recognised within finance costs in the income statement representing the unwinding of the discount factor. During December 2012 an agreement was signed by the parties for the Group's acquisition of the remaining interest in the subsidiary and completion occurred on 1 February 2013. A financial liability of £8.7 million has been recognised in relation to the settlement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21 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 2012					
Trade and other receivables	**0.3**	**5.3**	**1.8**	**–**	**7.4**
Cash and cash equivalents	**0.2**	**12.1**	**1.6**	**0.5**	**14.4**
Borrowings	**–**	**(7.4)**	**–**	**–**	**(7.4)**
Trade and other payables	**(1.2)**	**(6.2)**	**(0.5)**	**–**	**(7.9)**
	(0.7)	**3.8**	**2.9**	**0.5**	**6.5**
31 December 2011					
Trade and other receivables	0.3	5.1	2.3	2.6	10.3
Cash and cash equivalents	0.2	3.3	2.2	3.3	9.0
Borrowings	–	(6.4)	–	–	(6.4)
Trade and other payables	(0.8)	(5.6)	(1.4)	–	(7.8)
	(0.3)	(3.6)	3.1	5.9	5.1

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.

£million	2012	2011
US dollar	**0.2**	(0.2)
Euro	**0.3**	0.3

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	2012 total
Financial assets				
Trade and other receivables	**–**	**–**	**57.3**	**57.3**
Cash and cash equivalents	**59.1**	**–**	**–**	**59.1**
Derivative financial instruments	**–**	**–**	**0.2**	**0.2**
Total financial assets	**59.1**	**–**	**57.5**	**116.6**
Financial liabilities				
Borrowings	**(11.5)**	**(0.9)**	**–**	**(12.4)**
Trade and other payables	**–**	**–**	**(105.3)**	**(105.3)**
Total financial liabilities	**(11.5)**	**(0.9)**	**(105.3)**	**(117.7)**

At 31 December 2012, 7.0% (2011: 8.0%) of total debt was at a fixed rate and the balance was at floating rate. At 31 December 2011 a £20.0 million 1.0% interest rate cap was in place, fixing 45.0% of the total debt at 31 December 2011. This interest rate cap was closed out during the year.

21 Financial risk management (continued)

£million	Floating rate	Fixed rate	Non-interest bearing	2011 total
Financial assets				
Trade and other receivables	–	–	75.1	75.1
Cash and cash equivalents	52.5	17.0	–	69.5
Derivative financial instruments	–	–	0.5	0.5
Total financial assets	52.5	17.0	75.6	145.1
Financial liabilities				
Borrowings	(50.0)	(4.3)	–	(54.3)
Trade and other payables	–	–	(114.1)	(114.1)
Derivative financial instruments	–	–	(6.9)	(6.9)
Total financial liabilities	(50.0)	(4.3)	(121.0)	(175.3)

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 cash position of the Group at 31 December 2012, any increase in interest rates would result in a net gain in the consolidated income statement, and any decrease in interest rates would result in a net loss. The effect on profit after tax of a 1% movement in £LIBOR, based on the year end floating rate net cash and with all other variables held constant, is estimated to be £0.1 million (2011: £0.2 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 GBP which can be hedged using foreign exchange hedges.

There were no material impairments of trade receivables as at 31 December 2012 or 2011. 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	**2012**	2011
Europe (including UK)	**34.1**	39.6
North America	**7.7**	9.3
Central and South America	**0.3**	11.2
Asia	**7.9**	8.0
Rest of the World	**0.5**	1.0
	50.5	69.1

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21 Financial risk management (continued)

(ii) Impairment losses

The ageing of trade receivables at 31 December was:

£million	2012 Gross	2012 Impairment	2011 Gross	2011 Impairment
Not past due	**37.4**	**–**	50.5	–
Past due 0 – 60 days	**11.9**	**(0.1)**	15.2	(0.7)
Past due 61 – 120 days	**1.6**	**(0.4)**	4.1	(0.4)
More than 120 days	**1.0**	**(0.9)**	1.6	(1.2)
	51.9	**(1.4)**	71.4	(2.3)

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

£million	2012	2011
At 1 January	**2.3**	1.5
(Credited)/charged to income statement	**(0.5)**	0.8
Businesses disposed	**(0.4)**	–
At 31 December	**1.4**	2.3

(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 monitored 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	2012	2011
Other receivables	**7.4**	7.0
Cash and cash equivalents	**59.1**	69.5
Derivative financial instruments (current assets)	**0.2**	0.5

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 2012, the Group had £61.6 million of undrawn committed borrowing facilities (2011: £33.2 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	Over 5 years	Total
31 December 2012						
Trade and other receivables	**–**	**54.3**	**2.9**	**0.1**	**–**	**57.3**
Cash and cash equivalents	**59.1**	**–**	**–**	**–**	**–**	**59.1**
Derivative financial instruments	**–**	**–**	**0.2**	**–**	**–**	**0.2**
	59.1	**54.3**	**3.1**	**0.1**	**–**	**116.6**
Borrowings	**–**	**(4.0)**	**(0.2)**	**(10.0)**	**–**	**(14.2)**
Trade and other payables	**–**	**(90.1)**	**(10.1)**	**(3.0)**	**(2.1)**	**(105.3)**
	–	**(94.1)**	**(10.3)**	**(13.0)**	**(2.1)**	**(119.5)**

21 Financial risk management (continued)

At 31 December 2012, the Group had derivative financial instruments hedging a notional contractual amount of £54.9 million of foreign exchange and commodity cash flows. Of this total amount, £54.9 million matures within one year.

£million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2011						
Trade and other receivables	–	71.2	3.8	0.1	–	75.1
Cash and cash equivalents	69.5	–	–	–	–	69.5
Derivative financial instruments	–	–	0.5	–	–	0.5
	69.5	71.2	4.3	0.1	–	145.1
Borrowings	(10.7)	0.1	(1.1)	(44.8)	–	(56.5)
Trade and other payables	–	(102.3)	(5.2)	(4.4)	(2.2)	(114.1)
Derivative financial instruments	–	–	(7.5)	–	–	(7.5)
	(10.7)	(102.2)	(13.8)	(49.2)	(2.2)	(178.1)

f) Fair value of financial assets and liabilities

The Group has adopted the amendment to IFRS 7 "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.

		2012		2011
£million	**Carrying value**	**Fair value**	Carrying value	Fair value
Trade and other receivables	**57.3**	**57.3**	75.1	75.1
Cash and cash equivalents	**59.1**	**59.1**	69.5	69.5
Borrowings	**(12.4)**	**(12.4)**	(54.3)	(54.2)
Trade and other payables	**(105.3)**	**(105.3)**	(114.1)	(114.1)
Derivative financial instruments	**0.2**	**0.2**	(6.4)	(6.4)

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 instrument assets (£0.2 million) 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 Board considers equity shareholders' funds as 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 cash position of £46.7 million (2011: £15.2 million). Included within the debt facilities are certain 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 every half year. 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22 Deferred tax

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

£million	As at 1 January 2012	Continuing operations	Discontinued operations	Recognised in equity	Net exchange translation	As at 31 December 2012
Intangible assets	**(4.2)**	**(0.2)**	**–**	**–**	**0.1**	**(4.3)**
Property, plant and equipment	**(1.6)**	**0.4**	**–**	**–**	**(0.2)**	**(1.4)**
Deferred development costs	**(2.3)**	**(0.3)**	**–**	**–**	**(0.2)**	**(2.8)**
Retirement benefit obligations	**9.6**	**(0.4)**	**–**	**(0.1)**	**0.2**	**9.3**
Inventories	**2.7**	**(1.0)**	**0.5**	**–**	**(0.2)**	**2.0**
Provisions	**5.2**	**(0.8)**	**(1.1)**	**–**	**0.1**	**3.4**
Tax losses	**2.1**	**1.9**	**–**	**–**	**–**	**4.0**
Unremitted overseas earnings	**(1.2)**	**0.3**	**–**	**–**	**–**	**(0.9)**
Share-based payments	**1.3**	**0.5**	**–**	**(0.8)**	**–**	**1.0**
Short-term timing differences	**0.1**	**0.5**	**(0.2)**	**–**	**–**	**0.4**
Deferred tax asset/(liability)	**11.7**	**0.9**	**(0.8)**	**(0.9)**	**(0.2)**	**10.7**

£million	As at 1 January 2011	Continuing operations	Discontinued operations	Recognised in equity	Net exchange translation	As at 31 December 2011
Intangible assets	(3.7)	(0.5)	–	–	–	(4.2)
Property, plant and equipment	(0.8)	(0.8)	–	–	–	(1.6)
Deferred development costs	(3.0)	0.6	–	–	0.1	(2.3)
Retirement benefit obligations	11.8	–	–	(2.3)	0.1	9.6
Inventories	2.8	(0.2)	–	–	0.1	2.7
Provisions	4.2	1.0	–	–	–	5.2
Tax losses	0.6	1.5	–	–	–	2.1
Unremitted overseas earnings	(0.8)	(0.4)	–	–	–	(1.2)
Share-based payments	0.7	0.3	–	0.3	–	1.3
Short-term timing differences	(0.6)	0.8	–	–	(0.1)	0.1
Deferred tax asset/(liability)	11.2	2.3	–	(2.0)	0.2	11.7

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

£million	2012	2011
Deferred tax assets	**13.1**	21.0
Deferred tax liabilities	**(2.4)**	(9.3)
Net deferred tax asset	**10.7**	11.7

At 31 December 2012, the Group had the following items for which no deferred tax assets have been recognised:

£million	2012	2011
Tax losses	**27.9**	28.0
Property, plant and equipment	**10.0**	12.7

Included within the £27.9 million (2011: £28.0 million) of unrecognised tax losses in the table above is £21.5 million (2011: £19.7 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 £nil (2011: £nil).

23 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 £1.9 million (2011: £2.0 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.

Following the UK Government's announcement in July 2010 to change the basis of statutory minimum indexation of occupational pension scheme from the Retail Price Index (RPI) to the Consumer Price Index (CPI), the Company communicated the impact of this change to affected members in 2011. This resulted in a one-off reduction in the future liabilities of £7.5 million which was recognised as an exceptional item within the consolidated income statement during 2011 (see note 8).

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, £3.5 million was paid in 2011, £3.7 million was paid in 2012; and further planned contributions amount to: 2013 £3.9 million; increasing by £0.2 million each year to £4.5 million in 2016. The next triennial valuation of the UK scheme will take place in April 2013.

The Group also operates defined benefit schemes in the USA and Japan. Actuarial valuations of the schemes were carried out by independent qualified actuaries in 2007 and 2010 using the projected unit credit method. Pension scheme assets are stated at their market value at 31 December 2012.

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

£million	2012	2011
UK	**33.7**	32.1
USA	**2.8**	3.1
Japan	**0.3**	0.3
	36.8	35.5

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:

%	2012	2011
Discount rate	**4.4**	4.7
Inflation rate	**2.5**	2.7
Increases to pensions in payment	**2.5 – 3.2**	2.5 – 3.2

A decrease in the discount rate by 0.1% per annum increases the liabilities by approximately £7.0 million. An increase in the inflation rate of 0.1% per annum increases the liabilities by approximately £1.8 million.

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:

%	2012	2011
Equities	**7.0**	6.8
Bonds	**4.0**	4.1
Gilts and swaps	**2.7**	2.5
Cash	**0.3**	0.1

Financial statements – Group accounts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 Retirement benefit schemes (continued)

The mortality tables applied by the actuaries at 31 December 2012 were S1NA tables adjusted by + one year, with future improvements increasing in line with medium cohort with a 1% per annum floor.

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

£million	2012	2011	2010	2009	2008	2007
Equities	**203.8**	213.9	199.8	190.0	174.7	182.0
Bonds	**83.7**	78.6	36.8	36.8	25.8	12.4
Gilts and cash	**31.4**	26.9	63.0	61.6	48.7	103.8
Swaps	**68.6**	58.6	38.5	18.1	33.9	–
Fair value of assets	**387.5**	378.0	338.1	306.5	283.1	298.2
Present value of funded obligation	**(424.3)**	(413.5)	(379.3)	(350.2)	(301.7)	(315.6)
Net liability recognised in the Consolidated balance sheet	**(36.8)**	(35.5)	(41.2)	(43.7)	(18.6)	(17.4)

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	2012	2011
Current service cost	**–**	0.1
RPI/CPI change to indexation	**–**	(7.5)
Interest on employee obligations	**19.0**	20.0
Expected return on pension scheme assets	**(18.5)**	(19.0)

The actual return on schemes assets was a gain of £21.7 million (2011: £49.3 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 £42.0 million.

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

£million	2012	2011
Defined benefit obligation at 1 January	**413.5**	379.3
Current service cost	**–**	0.1
Interest on obligation	**19.0**	20.0
RPI/CPI change to indexation	**–**	(7.5)
Change in actuarial estimates and assumptions	**8.5**	36.5
Benefits paid	**(16.7)**	(14.9)
Defined benefit obligation at 31 December	**424.3**	413.5

23 Retirement benefit schemes (continued)

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

£million	**2012**	2011
Fair value of schemes' assets at 1 January	**378.0**	338.1
Expected return on schemes' assets	**18.5**	19.0
Excess of actual over expected returns	**2.8**	30.3
Contributions by employer	**4.9**	5.5
Benefits paid	**(16.7)**	(14.9)
Fair value of schemes' assets at 31 December	**387.5**	378.0

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

£million	**2012**	2011	2010	2009	2008	2007
Experience adjustments on schemes' liabilities	**(8.5)**	(36.5)	(31.8)	(44.5)	22.2	37.8
Experience adjustments on schemes' assets	**2.8**	30.3	25.9	15.8	(25.4)	0.5
	(5.7)	(6.2)	(5.9)	(28.7)	(3.2)	38.3

The Group expects to contribute approximately £3.9 million of additional fixed contributions to defined benefit schemes in the UK in 2013.

24 Share capital

£million	**2012**	2011
Issued and fully paid		
156,950,664 (2011: 155,217,949) ordinary shares of 25p each	**39.2**	38.8

During 2012 the Company issued 1,550,161 ordinary shares on the vesting of the Long Term Incentive Plan awards issued in 2009. The shares were then allocated to award holders via an Employee Benefit Trust for nil consideration. A charge of £0.4 million has been recognised in retained earnings accordingly.

The Company also issued 182,554 ordinary shares as a result of share options being exercised under the 2004 Approved Plan and Unapproved Plan and the Sharesave scheme. The aggregate consideration received was £0.2 million, which resulted in an increase in share premium of £0.2 million.

25 Share-based payment plans

The Company has the following share-based payment plans in operation at 31 December 2012:

- 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 plans for UK, German and Austrian employees; and Share Purchase plans for US employees.

a) Share option schemes

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

	2012		2011	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
At 1 January	**579,568**	**115.9**	1,136,161	138.2
Forfeited	**(60,056)**	**75.6**	(140,818)	128.9
Exercised	**(37,377)**	**145.0**	(77,234)	145.0
Expired	**(135,771)**	**165.0**	(338,541)	186.1
At 31 December	**346,364**	**100.5**	579,568	115.9
Exercisable at 31 December	**108,989**	**145.0**	142,297	145.0

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 Share-based payment plans (continued)

At 31 December 2012 options were exercisable over 346,364 (2011: 579,568) ordinary shares under the Group share option schemes up to 2015. Subscription prices range from 80p to 145p with a weighted average of 100.5p and a weighted average remaining contractual life of 0.64 years (2011: 1.32 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 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:

	2012	2011
	Number of share awards	Number of share awards
At 1 January	6,609,747	6,305,879
Granted	1,154,691	1,525,800
Forfeited	(607,544)	(291,811)
Vested	(2,972,671)	–
Expired	–	(930,121)
At 31 December	**4,184,223**	6,609,747
Exercisable at 31 December	**–**	–

During 2011 and 2012 grants of awards were made under the LTIP for the issue of shares in 2014 and 2015 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 55.

On 25 April 2012 grants of awards were made under the LTIP for the issue of up to 1,154,691 shares in 2015. On 27 April 2011 and 18 October 2011, grants of awards were made under the LTIP for the issue of up to 1,490,800 and 35,000 shares in 2014.

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 simulates 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:

	2012	2011	
	Shares with a 25 April 2012 grant date	Shares with a 18 October 2011 grant date	Shares with a 27 April 2011 grant date
Number of awards	1,154,691	35,000	1,490,800
Fair value at grant date	144.0p	126.0p	148.5p
Share price at grant date	182.5p	149.8p	176.5p
Exercise price	£nil	£nil	£nil
Expected volatility	49%	66%	66%
Expected weighted average life at 31 December	**2.3**	2.9	2.3

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.

On 25 April 2012, 32,545 (27 April 2011: 113,000) 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 25 April 2012 (27 April 2011) LTIP grant.

The LTIP grants made in 2009 vested in full during 2012. The weighted average exercise price was nil.

The Group gave its 2009 LTIP holders the option to receive shares net of the employee tax owed. The employee tax of £2.4 million has been paid to the tax authorities in cash.

25 Share-based payment plans (continued)

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:

	2012 Number of share awards	2011 Number of share awards
At 1 January	**259,515**	259,515
Granted	**–**	–
Forfeited	**(51,903)**	–
Exercised	**–**	–
Expired	**–**	–
At 31 December	**207,612**	259,515
Exercisable at 31 December	**–**	–

The fair value of the shares at grant date was 139.0p. On 24 October 2010, the Company purchased 259,515 shares at a cost of £0.4 million through an Employee Benefit Trust. These shares are dilutive for the purpose of earnings per share.

d) Sharesave schemes

The Group operates Sharesave schemes for participating employees in the UK, Germany and Austria under either a three-year or five-year plan. Employees may purchase the Group's shares at a 20% discount to the market price on the day prior to the commencement of the offer up to a maximum contribution value of £3,000 (UK) or €3,480 (Germany/Austria) in any one year. Monthly contributions are saved with LloydsTSB plc, via 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 commencement of the savings contract. Options become exercisable on completion of either the three or five year term or within six months of leaving in certain circumstances.

	Date price set	Market price	Option price	Options outstanding
UK	3 September 2010	142.5p	114.0p	1,088,537
Germany/Austria	19 April 2011	169.0p	136.0p	126,368
UK	2 September 2011	162.0p	130.0p	254,442
Germany/Austria	31 May 2012	162.0p	130.0p	58,874
UK	31 August 2012	148.0p	119.0p	150,293

The fair value of the shares at grant date was as follows:

	2012		2011	
pence	UK	Germany/Austria	UK	Germany/Austria
3 year scheme	**53.2**	**58.5**	77.9	83.6
5 year scheme	**61.0**	**67.2**	87.5	93.9

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

	2012 Number of share awards	2011 Number of share awards
At 1 January	**1,725,512**	1,492,920
Granted	**216,730**	425,702
Forfeited	**(208,721)**	(177,119)
Exercised	**(55,007)**	(15,991)
Expired	**–**	–
At 31 December	**1,678,514**	1,725,512
Exercisable at 31 December	**192,438**	30,695

On 26 September 2011 the Group launched a Stock Purchase Plan for participating US employees. Under the plan employees may purchase the Group's shares at a 15% discount to the market price at the date of acquisition, up to a maximum of $6,500 per annum. Employees save on a monthly basis and shares are purchased each quarter.

The total share-based payment charge for the year (excluding social security charges of £0.4 million) arising from the above share scheme plans was £1.4 million (2011: £1.7 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Hedging and translation reserves

£million	Hedging reserve	Translation reserve	Total
At 1 January 2011	(11.7)	38.3	26.6
Exchange differences on translation of foreign operations	–	0.9	0.9
Tax on exchange differences	–	0.1	0.1
Loss on hedge of net investment in foreign operations	–	(0.6)	(0.6)
Cash flow hedges	0.2	–	0.2
At 1 January 2012	(11.5)	38.7	27.2
Exchange differences on translation of foreign operations	–	(4.3)	(4.3)
Tax on exchange differences	–	0.1	0.1
Loss on hedge of net investment in foreign operations	–	(2.8)	(2.8)
Cash flow hedges	(0.5)	–	(0.5)
Foreign exchange gain on disposals taken to income statement	–	(0.2)	(0.2)
At 31 December 2012	**(12.0)**	**31.5**	**19.5**

27 Retained earnings

£million	
At 1 January 2011	109.7
Profit for the year	25.0
Fair value of minority put option	(1.9)
Dividends paid by the Company	(5.0)
Actuarial net loss on defined benefit pension schemes (see note 23)	(6.2)
Tax on actuarial amounts in pension deficit movement	(2.3)
At 1 January 2012	119.3
Profit for the year	23.5
Fair value of minority financial liability	(1.1)
Dividends paid by the Company	(7.3)
New shares issued	(0.4)
Actuarial net loss on defined benefit pension schemes (see note 23)	(5.7)
Tax on actuarial amounts in pension deficit movement	(0.1)
At 31 December 2012	**128.2**

28 Reconciliation of net cash flow to movement in net funds/(debt)

£million	Net cash	Borrowings and finance leases	Net (debt)/funds
At 1 January 2011	44.2	(54.1)	(9.9)
Cash flow	14.8	11.0	25.8
Non-cash items	–	(0.5)	(0.5)
Exchange differences	(0.2)	–	(0.2)
At 1 January 2012	58.8	(43.6)	15.2
Cash flow	1.0	31.5	32.5
Non-cash items	–	(0.9)	(0.9)
Exchange differences	(0.7)	0.6	(0.1)
At 31 December 2012	**59.1**	**(12.4)**	**46.7**

Net cash includes overdraft balances of £nil (2011: £10.7 million).

29 Contingent liabilities

The Group has contingent liabilities amounting to £0.7 million (2011: £1.2 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 made and included within note 19, the Directors consider the likelihood of any other claims giving rise to a significant liability to be remote.

30 Capital commitments

£million	2012	2011
Contractual commitments for the purchase of property, plant and equipment	**7.5**	9.7

31 Operating leases

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

£million	2012	2011
Fixtures and equipment	**0.5**	0.4
Land and buildings	**3.0**	2.7

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

£million	2012	2011
In less than one year	**3.7**	3.4
Between one and five years	**8.1**	9.6
After five years	**1.4**	1.8

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

No related party transactions have taken place in 2012 or 2011 that have affected the financial position or performance of the Group.

Key management personnel and Directors' emoluments are disclosed in note 12.

33 Post balance sheet event

On 1 February 2013 the Group completed the acquisition of the 49% minority interest in Padmini TT electronics Private Limited, paying an initial consideration of £8.2 million with £0.5 million deferred to 2014. Following the acquisition, Padmini TT electronics Private Limited is wholly owned by the Group.

Financial statements – Company accounts

COMPANY BALANCE SHEET

£million	Note	2012	2011
Fixed assets			
Tangible assets	2	**1.3**	3.1
Intangible assets	2	**1.3**	–
Investments	3	**91.9**	119.7
Deferred tax asset	11	**8.4**	9.0
		102.9	131.8
Current assets			
Debtors	4	**167.0**	76.2
Cash at bank and in hand		**2.3**	1.3
		169.3	77.5
Creditors: amounts falling due within one year	5	**(24.4)**	(9.8)
Net current assets		**144.9**	67.7
Total assets less current liabilities		**247.8**	199.5
Pension liability	10	**(33.7)**	(32.1)
Net assets		**214.1**	167.4
Capital and reserves			
Called up share capital	6	**39.2**	38.8
Share premium account	8	**0.7**	0.5
Profit and loss account	8	**174.2**	128.1
Shareholders' funds		**214.1**	167.4

Approved by the Board of Directors on 13 March 2013 and signed on their behalf by:

Geraint Anderson
Director

Shatish Dasani
Director

Financial statements – Company accounts

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 the revaluation of investment properties 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 Improvements to FRSs (2010).

There are no new standards or amendments to standards which are issued but not yet effective.

The principal accounting policies are summarised below and have been applied consistently throughout the current 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.

Intangible fixed assets and amortisation

Acquired computer software licences 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 Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets and amortised over a 3 to 5 year period. Capitalised software development expenditure is stated at cost less accumulated amortisation.

Investment properties

Investment property is recorded at open market value as determined by independent valuers. In accordance with the Statement of Standard Accounting Practice (SSAP) 19, depreciation is not provided on investment property on the basis that such property is not held for consumption but for investment. The Directors believe, therefore, that this accounting policy is necessary for the accounts to give a true and fair view.

Changes in the market value of investment properties are not taken to the profit and loss account and are recognised within the revaluation reserve, unless a deficit (or its reversal) on an individual investment property is expected to be permanent, in which case it is charged (or credited) in the profit and loss account of the period.

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.

1 Significant accounting policies (continued)

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.

Own shares held by Employee Benefit Trust

Transactions of the Company-sponsored Employee Benefit 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 and intangible fixed assets

£million	Intangible fixed assets	Freehold land and buildings	Plant, equipment and vehicles	Total tangible fixed assets
Cost				
At 1 January 2012	–	2.9	1.3	4.2
Reclassifications	0.5	–	(0.5)	(0.5)
Additions	1.1	–	0.2	0.2
At 31 December 2012	**1.6**	**2.9**	**1.0**	**3.9**
Depreciation				
At 1 January 2012	–	0.8	0.3	1.1
Reclassifications	0.1	–	(0.1)	(0.1)
Charge for the year	0.2	–	0.2	0.2
Impairment	–	1.4	–	1.4
At 31 December 2012	**0.3**	**2.2**	**0.4**	**2.6**
Net book value				
At 31 December 2012	**1.3**	**0.7**	**0.6**	**1.3**
At 31 December 2011	–	2.1	1.0	3.1

Freehold land and buildings includes investment property held at market value of £0.7 million (2011: £nil).

3 Fixed asset investments

£million	Subsidiary undertakings
Cost	
At 1 January and 31 December 2012	**129.4**
Provisions	
At 1 January 2012	9.7
Returned capital	27.8
At 31 December 2012	**37.5**
Net book value	
At 31 December 2012	**91.9**
At 31 December 2011	119.7

The Company's principal operating subsidiary undertakings and their locations are shown in note 14.

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

Returned capital relates to the decrease in value of the Company's subsidiary investment where the related subsidiary has paid up a dividend to the Company in excess of this amount.

Financial statements – Company accounts

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

4 Debtors

£million	2012	2011
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**163.5**	74.5
Prepayments and accrued income	**3.3**	1.7
Taxation and social security	**0.2**	–
	167.0	76.2

5 Creditors

£million	2012	2011
Amounts falling due within one year		
Trade creditors	**2.6**	1.4
Amounts owed to subsidiary undertakings	**17.0**	2.9
Taxation and social security	**0.2**	0.6
Accruals and deferred income	**4.6**	4.9
	24.4	9.8

6 Share capital

£million	2012	2011
Issued, called up and fully paid		
156,950,664 (2011: 155,217,949) ordinary shares of 25p each	**39.2**	38.8

During 2012 the Company issued 1,550,161 ordinary shares on the vesting of the Long Term Incentive Plan awards issued in 2009. The shares were then allocated to award holders via an Employee Benefit Trust for nil consideration. A charge of £0.4 million has been recognised in retained earnings accordingly.

The Company also issued 182,554 ordinary shares as a result of share options being exercised under the 2004 Approved Plan and Unapproved Plan and the Sharesave scheme. The aggregate consideration received was £0.2 million, which resulted in an increase in share premium of £0.2 million.

7 Share-based payments

Details of share-based payments are shown in note 25 of the consolidated financial statements.

8 Shareholders' funds

£million	Share capital	Share premium	Profit and loss account
At 1 January 2012	38.8	0.5	128.1
New shares issued	0.4	0.2	(0.4)
Actuarial net loss on defined benefit pension schemes	–	–	(5.1)
Tax on actuarial amounts in pension deficit movement	–	–	(0.2)
Share-based payments	–	–	(1.3)
Deferred tax on share-based payments	–	–	(0.8)
Dividends paid by the Company	–	–	(7.3)
Profit for the year	–	–	61.2
At 31 December 2012	**39.2**	**0.7**	**174.2**

9 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 profit after tax of the Company for the year was £61.2 million (2011: profit of £15.5 million). The auditor's remuneration for audit services is disclosed in note 7 to the consolidated financial statements.

10 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 the Company. Further details of the UK defined benefit pension scheme are shown in note 23 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 2012 were £0.3 million (2011: £0.3 million).

11 Deferred tax

The deferred tax asset of £8.4 million (2011: £9.0 million) is made up of an asset of £7.7 million (2011: £8.0 million), the movement of which has been recognised in equity in respect of the pension liability, and an asset of £0.7 million (2011: £1.0 million) in respect of share-based payments, the movement of which has been recognised as a £0.4 million credit to the income tax charge in the profit and loss account and a £0.7 million charge to equity.

At 31 December 2012, the Company had the following items for which no deferred tax assets have been recognised:

- Tax losses £21.5 million (2011: £19.7 million); and
- Property, plant and equipment £0.6 million (2011: £0.3 million).

12 Commitments under operating leases

Annual commitments under non-cancellable operating leases were as follows:

£million	**Land and buildings**	**Other**	**2012 Total**	Land and buildings	Other	2011 Total
On leases expiring:						
Within one year	**–**	**–**	**–**	–	0.1	0.1
Between two and five years	**0.4**	**0.1**	**0.5**	0.4	0.3	0.7
	0.4	**0.1**	**0.5**	0.4	0.4	0.8

13 Related party transactions

During 2012 and 2011, the Company did not have any related party transactions other than with wholly owned subsidiaries.

Financial statements – Company accounts

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

14 Principal operating subsidiaries

The principal operating subsidiaries are:

Components

International Resistive Company, USA, Barbados
BI Technologies, USA, 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
TT Electronics Components Manufacturing SRL, Romania

Sensors

AB Elektronik GmbH, Germany
AB Elektronik Sachsen GmbH, Germany
Padmini TT electronics Private Limited, India
AB Elektronik Sensors (Suzhou) Co Ltd, China
AB Electronic Manufacturing, Mexico
AB Elektronik Manufacturing Romania SRL, Romania

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

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

Shareholder information
FIVE-YEAR RECORD

£million (unless otherwise stated)	**2012**	2011[1]	2010	2009	2008
Revenue	**476.9**	509.6	555.5	463.5	584.3
Operating profit[2]	**29.4**	28.7	24.9	6.4	27.0
Profit before taxation[2]	**26.7**	24.5	20.6	0.8	21.1
Earnings/(loss)[2]	**19.7**	17.6	13.9	(1.8)	14.3
Earnings/(loss) per share (p)[2]	**12.6**	11.4	9.0	(1.2)	9.2
Dividends – paid and proposed	**7.8**	6.8	4.3	–	5.7
Dividend per share – paid and proposed (p)	**5.0**	4.4	2.8	–	3.7
Average number of shares in issue	**156.1**	154.9	154.8	155.0	155.0
Net cash/(debt)	**46.7**	15.2	(9.9)	(56.9)	(113.2)
Total equity	**191.1**	191.4	179.1	155.8	212.9

Notes

(1) Results for 2011 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

SHAREHOLDER INFORMATION

Annual General Meeting

The Annual General Meeting will be held on 9 May 2013 at 11.30 am at the offices of Hudson Sandler Financial and Corporate Communications, 2nd Floor, 29 Cloth Fair, London EC1A 7NN.

Results

Announcement of 2013 half year results – late August 2013.
Preliminary announcement of 2013 results – mid March 2014.
Annual report 2013 – to be posted mid April 2014.

Dividends

For the year ending 31 December 2012, the Board has recommended a final dividend of 3.5p per share which will be paid on 30 May 2013 to shareholders on the register on 17 May 2013 (2011: 3.2p). An interim dividend of 1.5p per share was paid on 1 November 2012 (2011: 1.2p).

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 (except bank holidays), for more information about this service and for details of the rates and charges. Please note that telephone lines remain open until 6.00 pm for enquiries.

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 1.75 per cent with a minimum charge of £40.

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* (or +44 121 415 7047 if calling from outside the United Kingdom)
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

*UK calls to 0871 numbers cost 8p per minute plus network extras. Lines are open from 8.30 am to 5.30 pm, Monday to Friday (except bank holidays).

Website

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

Shareholder information

SHAREHOLDER NOTES

Shareholder information
SHAREHOLDER NOTES CONTINUED

Designed and produced by **Radley Yeldar** (www.ry.com) using the paperless proofing system Wizard**ry.**

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