

GROUP ACCOUNTS

Accounting policies for the consolidated financial statements

The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) as endorsed by the European Union.

The financial statements have been prepared under the historical cost convention modified by the revaluation of financial assets and derivatives held at fair value and by the revaluation at the transition date to IFRS of certain property, plant and equipment.

IAS 1 Presentation of Financial Statements, IFRS 8 Operating Segments, IAS 23 Borrowing Costs and IFRS 7 Amended Financial Instruments disclosure have been adopted in the current period. The Group's operating segments have been redesignated, see note 1, and the Group's policy on the capitalisation of borrowing costs has been changed. The Group is not yet required to adopt and has not adopted revised versions of IFRS 5, IAS 7, IFRS 3, IAS 27 and IAS 28. Adoptions of these revisions would not have had any significant effect on these financial statements.

IAS 1 Presentation of Financial Statements (Revised) requires presentation of a comparative balance sheet at the beginning of the first comparative period in some circumstances. Management considers that this is not necessary this year because the 2007 balance sheet is the same as that previously published.

Basis of consolidation

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

Revenue recognition

Revenue is the fair value of the consideration, usually the invoiced value, for the provision of goods and services to external customers excluding value added tax and other sales related taxes in accordance with IAS 18.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have transferred to the buyer. In most cases this coincides with the transfer of legal title of the goods.

Revenue from the provision of services is recognised when the amount of revenue can be measured reliably and the receipt of the economic benefit is probable, in accordance with IAS 18. The amount of revenue recognised is determined by reference to the stage of completion.

Goodwill

Goodwill arising on the acquisition of a business, representing the difference between the cost of acquisition and the fair value of the identifiable net assets acquired, is capitalised and is tested annually for impairment. The net book value of goodwill at the date of transition to IFRS has been treated as deemed cost. On the subsequent disposal or discontinuance of a previously acquired business, the relevant goodwill is dealt with in the income statement except for the goodwill already charged to reserves.

Other intangible assets

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

Acquired patents and licences	– up to 10 years
Product development costs	– up to 3 years
Customer relationships	– 3-8 years

Amortisation is on a straight-line basis.

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

Foreign currencies

Initial recognition

Foreign currency transactions are recorded on initial recognition in the functional currency of the relevant operating company by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Translation of foreign operations

Assets and liabilities of overseas subsidiaries are translated into sterling at the rate of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries are translated into sterling using an exchange rate that approximates to the exchange rates at the dates of the transactions. The exchange differences arising from these translations are recognised within equity and reported in the statement of comprehensive income. All other exchange differences are dealt with through the consolidated income statement. On disposal of an overseas subsidiary any cumulative exchange movements relating to that subsidiary held in the translation reserve are transferred to the consolidated income statement.

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

Property, plant and equipment

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

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

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

Borrowing costs from 1 January 2009 directly attributable to the acquisition, construction or production of assets that take a substantial period of time to get ready for use are capitalised. In previous financial years such costs were expensed. The effect in 2009 is immaterial.

Inventories

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

Deferred taxation

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

Leases

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

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

Trade and other receivables

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

Financial derivatives

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

Hedge accounting

The Group uses cash flow hedges to reduce its exposure to exchange rate, interest rate and other financial risks. The application of the hedge is documented before hedge accounting commences and is regularly reviewed for effectiveness. The net gains or losses relating to hedged items to the extent that the hedge is effective are dealt with in the statement of comprehensive income. Any ineffective portions are dealt with in the income statement.

Cash and cash equivalents

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

Bank borrowings

Bank borrowings are carried at amortised cost.

Trade payables

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

GROUP ACCOUNTS

Accounting policies for the consolidated financial statements (continued)

Employee benefits

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

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

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

Government grants

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

Research and development

Research costs are written-off as incurred. Development costs incurred in the development of new or substantially improved products and processes are capitalised as intangible assets if it is probable that the expenditure will generate future economic benefits and can be measured reliably. Such costs are amortised on a straight-line basis over three years.

Share-based payments

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

Discontinued operations

The Group reports a business as a discontinued operation when its sale, probable sale or abandonment results in the cessation of a major line of business or geographical area of operation.

Segmental reporting

Operating segments are those components of the business where results are regularly reviewed by the Board to assess their performance and to make resource allocation decisions. The operating segments are identified by the products and services they supply and the similarity of their economic characteristics and not by their geographical area of operation.

Critical judgements in applying the entity's accounting policies

Other than the key sources of estimation uncertainty there were no material transactions or events during the year requiring critical judgements in applying the Group's accounting policies.

Key sources of estimation uncertainty

i Recoverability of internally generated intangible assets

The recoverability of capitalised development costs is dependent on assessments of the future commercial viability of the relevant products and processes. The carrying amount of £13.4 million at 31 December 2009 (2008: £18.3 million) is considered to be fairly stated.

ii Impairment of goodwill

The carrying amount of goodwill is £65.9 million (2008: £74.5 million). This has been tested for impairment by estimating the value in use of the cash-generating units to which it has been allocated. The value in use is estimated by discounting future cash flows. This process gives rise to uncertainty in respect of the cash flows themselves and the discount factors applied. An impairment of £3.8 million has been charged as an exceptional cost in 2009.

iii Defined benefit pension obligations

The defined benefit pension obligations are calculated using a number of assumptions, such as future inflation, salary increases and mortality and the obligation is then discounted to its present value using an assumed discount rate. The pension deficit of £43.7 million at 31 December 2009 has been calculated using the assumptions set out in note 27. A decrease of 0.1 per cent in the discount rate of 5.8 per cent increases the deficit by approximately £6.6 million. An increase of 0.1 per cent in the inflation rate of 3.4 per cent increases the deficit by approximately £5.7 million. The deferred tax asset recognised in relation to pension obligations has been restricted to £5.2 million (2008: £4.1 million).

iv Provisions

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

v Deferred tax

The recognition of deferred tax assets is dependent on assessments of future taxable income in the countries concerned.