

## GOVERNANCE

## Directors' remuneration report

This report has been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. A resolution to approve the report will be proposed at the Annual General Meeting on 12 May 2010. This report sets out the Company's policy for Directors' remuneration, the arrangements for 2009 and proposals for 2010, and has been divided into separate sections for audited and unaudited information.

**Unaudited information****Remuneration Committee**

The Remuneration Committee (the "Committee") comprises the independent non-executive Directors and is chaired by D S Crowther (the senior independent non-executive Director). Its other members are J C Shakeshaft and S M Watson. The Company Chairman is not a member of the Committee.

In 2009 the Committee met seven times and all members of the Committee attended each meeting. During the year the Committee carried out a self assessment of its performance, constitution and terms of reference based on a questionnaire completed by the members of the Committee.

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

As well as considering the circumstances of the Group and the demands on its senior management, the Committee takes into account the position of the Company relative to other companies and is informed of what these companies are paying, though comparisons are treated with caution. The Committee has appointed independent external consultants to advise on senior executive remuneration matters. During 2009 this advice was provided by Hewitt New Bridge Street ("HNBS") and they continue to advise the Remuneration Committee. HNBS provided no other services to the Company during the year.

**Remuneration policy**

The objectives of the Group's remuneration policy are to recruit, retain and motivate talented and well-qualified senior executives so as to realise the Group's strategy and business objectives and to align their interests with those of shareholders. A significant proportion of their remuneration is structured so as to link rewards to corporate and individual performance.

**Base salary**

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

The base salaries of executive Directors are reviewed annually at 1 July having regard to personal performance, Group performance, competitive market practice as determined by external research and pay levels within the Group.

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

	1 July 2009	At date of appointment
G Anderson	£350,000	£350,000
S D Dasani <sup>(1)</sup>	£240,000	£220,000

(1) S D Dasani's base salary was increased from £220,000 to £240,000 on 1 January 2009 as specified in his letter of appointment.

These salaries were not increased at the July 2009 review, consistent with the pay freeze that applied to the Group's workforce generally during 2009.

T H Roberts' base salary on appointment to the Board on 26 January 2010 was £175,000.

**Annual bonus**

Executive Directors participate in an annual bonus arrangement. The objective of the performance linked element of remuneration is to stimulate improved results of the Group by providing the opportunity of increased remuneration, subject to achieving challenging performance criteria.

For 2009, the performance measures were a balanced set of annual performance targets, comprising a sliding scale of profit targets (50 per cent of total bonus potential), a sliding scale of cash flow targets (30 per cent of total bonus potential) and tailored personal objectives linked to the implementation of the Group's strategy (20 per cent of total bonus potential). No bonus for personal objectives arises unless at least threshold performance against both the profit and cash flow targets has been achieved.

For 2010 similar performance criteria will apply except that achievement of strategy-related personal objectives will qualify for bonus potential separately from financial target elements. This recognises the importance attached to successful implementation of the Group's strategy, notwithstanding a possible delayed financial benefit. Furthermore the bonus arrangements for all senior executives below Board level are to be based consistently on the same performance criteria, including (to encourage greater team working) an element of profit of the whole division or group into which they report.

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

Details of bonuses awarded to the executive Directors for the year ended 31 December 2009 are set out in the emoluments table on page 44.

### Long Term Incentive Plan 2005 ("LTIP")

The LTIP is the primary long-term incentive arrangement of the Company. LTIP participants may receive annual awards of up to 100 per cent of base salary. The award is a contingent right to receive shares in the future, subject to continued employment and the achievement of predetermined performance criteria.

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

### Performance conditions

The performance targets attached to awards granted in May 2009 require the achievement of earnings per share ("EPS") and total shareholder return ("TSR") targets as follows:

- The performance target attached to 50 per cent of an award is based on three year EPS targets: 25 per cent of the shares subject to this part of the award will vest for EPS growth of 3 per cent compound per annum in excess of Retail Price Index ("RPI"), increasing on a straight-line basis to 100 per cent vesting for EPS growth of at least 7 per cent compound per annum in excess of RPI; and
- The performance target attached to the other 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. As well as 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 metrics, with EPS rewarding strong financial performance and TSR rewarding relative stock market performance. It is envisaged that similar targets will apply to the 2010 LTIP awards.

### Award levels

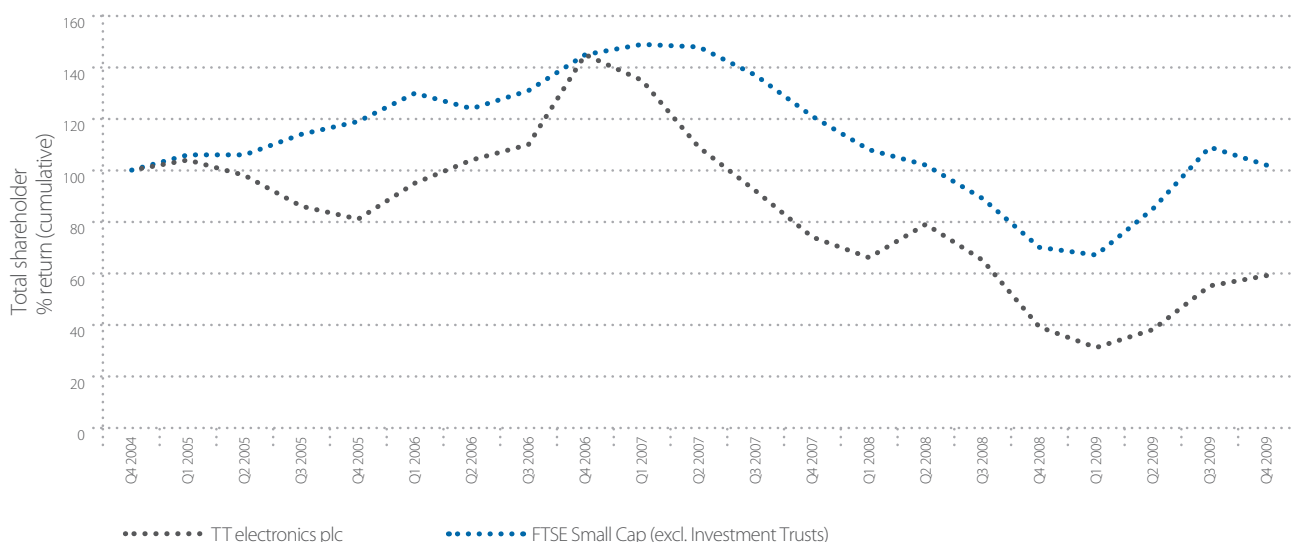
At its meeting in early March 2009, reflecting investor pronouncements with respect to reducing award levels where a company's share price has fallen, the Committee resolved to grant LTIP awards over 875,000 and 600,000 shares to the Group Chief Executive and Group Finance Director respectively. This equated to an award of approximately 50 per cent of salary based on a share price of circa 20 pence at that date (a reduction from the normal 75 per cent of salary policy). The awards were granted in May 2009 when the share price had risen to circa 30 pence. Following a substantial recovery in the Company's share price over the past year and good progress in implementing strategy, the intention is to grant between 75 and 100 per cent of base salary for the 2010 executive Director LTIP awards.

### Shareholding guidelines

The Company now operates shareholding guidelines for executive Directors which are linked to the out-turn of 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 achieved.

### Total shareholder returns

The Company's total shareholder return performance for the five years to 31 December 2009 is shown on the graph below compared with the index of the FTSE SmallCap companies (excluding investment trusts). The Company is a constituent of the FTSE SmallCap Index and for this reason the Directors consider it appropriate to benchmark the Company's performance against it.



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## Directors' remuneration report (continued)

**Share options**

The Company has operated a number of share option schemes in the past. It is the Committee's intention not to make further grants to executive Directors under these plans.

**Sharesave Scheme**

The Company is seeking shareholder approval for the adoption of a Sharesave Scheme at the forthcoming Annual General Meeting. Further details regarding the proposed Sharesave Scheme can be found in the Notice of the Annual General Meeting which accompanies this document.

**Service contracts**

The executive Directors have service contracts which reflect both current market practice and the appropriate balance between the interests of the Company and the individual Director. These contracts include 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 remuneration of each of the independent non-executive Directors is determined by the Chairman and the executive members of the Board, reflecting time commitment, responsibility of each role and the fees paid in other comparable companies. Consistent with the Group's pay freeze, no fee increases were awarded in 2009. No benefits in kind are provided for non-executive Directors.

The remuneration of the Company Chairman is a matter for the Committee. Following J W Newman's switch from executive to non-executive Chairman on 1 September 2009, the Committee determined that an annual fee of £100,000 would be appropriate from that date. As executive Chairman he was previously earning £214,882.

**Audited information****Aggregate Directors' emoluments**

Set out below are tables of remuneration of the Directors who served during 2009 and 2008. 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 <sup>(4)</sup> £000	Other £000	Benefits £000	2009 Total £000	2008 Total £000
<b>Executive Directors</b>						
G Anderson <sup>(1)</sup>	350	105	–	26	481	151
S D Dasani <sup>(1)</sup>	240	72	–	23	335	161
J W Armstrong <sup>(2)</sup>	–	–	25	4	29	216
N A Rodgers <sup>(1)</sup>	–	–	–	–	–	582
R W Weaver <sup>(1)</sup>	–	–	–	–	–	230
<b>Non-executive Directors</b>						
J W Newman <sup>(3)</sup>	177	–	–	1	178	226
D S Crowther	42	–	–	–	42	41
D E A Crowe <sup>(1)</sup>	–	–	–	–	–	21
J C Shakeshaft	32	–	–	–	32	31
S M Watson	32	–	–	–	32	31
	<b>873</b>	<b>177</b>	<b>25</b>	<b>54</b>	<b>1,129</b>	<b>1,690</b>

(1) G Anderson was appointed on 4 August 2008 and S D Dasani was appointed on 1 August 2008. N A Rodgers resigned on 11 June 2008 and R W Weaver and D E A Crowe retired on 1 August 2008 and 3 September 2008 respectively.

(2) J W Armstrong retired on 5 January 2009. The bonus of £25,000 was paid based on the bonus arrangements in place for 2008.

(3) J W Newman became non-executive Chairman from 1 September 2009 and it was agreed that his fees from that date would be £100,000.

(4) The amounts are payable under the bonus arrangements in place for 2009 as explained on page 42.

T H Roberts, who was appointed to the Board on 26 January 2010, is due to be paid a bonus of £40,000 in respect of the year to 31 December 2009.

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

**Executive Directors' pensions – defined benefit**

Two individuals who were executive Directors at the start of the financial year were members of the Company's defined benefit pension scheme.

	Increase/ (decrease) in accrued pension £000	Accrued pension at 31 December 2009 £000	Lump sum received during year £000	Value at 31 December 2009 £000	(Decrease)/ increase in value £000	Value at 31 December 2008 £000
J W Newman	6	226	–	3,943	(250)	4,193
J W Armstrong	(5)	61	99	1,231	88	1,143

## Notes

- (a) J W Newman is in receipt of a pension from the scheme. The cash equivalent value of J W Newman's future benefits fell during the year primarily due to the amounts paid to him during 2008 and, to a lesser degree, due to a rise in gilt yields.
- (b) J W Armstrong retired on 5 January 2009 and elected to take a pension commencement lump sum in exchange for part of his pension entitlement.
- (c) Pensions in payment accrued between 1 January 1989 and 5 April 2005 are increased annually in line with the annual rise in the All Items Index of Retail Prices subject to a maximum of 5 per cent per annum. Post 5 April 2005, increases are subject to a maximum of 2.5 per cent per annum.
- (d) In the event of the death of an executive or former executive Director, a pension equal to one half of the Director's pre-commutation pension will become payable to a surviving spouse.

**Executive Directors' pensions – defined contribution**

During the year the Company contributed £35,000 for G Anderson and £37,200 for S D Dasani to the Company's group personal pension arrangement.

**Long Term Incentive Plan**

As at 31 December 2009, Directors' interests under the LTIP were as follows:

	Date of grant	1 January 2009	Granted during the year	Lapsed	Vested	31 December 2009	Market price at grant date Pence	Vesting date
J W Newman	16 Jan 07	117,596	–	–	–	117,596 <sup>(1)</sup>	248.0	16 Jan 10
J W Armstrong	16 Jan 07	38,754	–	38,754	–	– <sup>(1)</sup>	248.0	
	31 May 07	19,969	–	19,969	–	– <sup>(1)</sup>	217.5	
	24 Apr 08	43,182	–	43,182	–	– <sup>(1)</sup>	110.0	
		101,905	–	101,905	–	–		
G Anderson	28 Aug 08	341,463	–	–	–	341,463 <sup>(1)</sup>	102.5	28 Aug 11
	5 May 09	–	875,000	–	–	875,000 <sup>(2)</sup>	30.25	5 May 12
		341,463	875,000	–	–	1,216,463		
S D Dasani	28 Aug 08	214,634	–	–	–	214,634 <sup>(1)</sup>	102.5	28 Aug 11
	5 May 09	–	600,000	–	–	600,000 <sup>(2)</sup>	30.25	5 May 12
		214,634	600,000	–	–	814,634		

## Notes

- (1) For LTIP awards granted in 2007 and 2008, 25 per cent of the shares subject to an award will vest for EPS growth of 3 per cent compound per annum in excess of RPI, increasing on a straight-line basis to 100 per cent vesting for EPS growth of at least 7 per cent compound per annum in excess of RPI.
- (2) Performance targets for LTIP awards granted in 2009 are set out under "Long Term Incentive Plan 2005" above.
- (3) J W Armstrong retired on 5 January 2009. His awards lapsed as the performance criteria had not been met.

TH Roberts holds LTIP awards granted in April 2008<sup>(1)</sup> and May 2009<sup>(2)</sup> over 10,000 and 202,667 shares respectively which are subject to the relevant performance criteria as noted for the executive Directors above.

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## Directors' remuneration report (continued)

## Directors' share options

Options set out below granted under the 1994 Executive Share Option Scheme (Approved) are marked<sup>(1)</sup>, the 1996 Executive Share Option Scheme (Unapproved) are marked<sup>(2)</sup> and the 2004 Company Share Option Plan (Unapproved) are marked<sup>(3)</sup>:

	1 January 2009	Lapsed	31 December 2009	Exercise price Pence	Exercise period
J W Newman	147,058	147,058	– <sup>(2)</sup>	136.0	Sep 2002–Sep 2009
	248,192		<b>248,192</b> <sup>(2)</sup>	166.0	May 2004–May 2011
	128,593		<b>128,593</b> <sup>(2)</sup>	165.0	Apr 2005–Apr 2012
	273,180		<b>273,180</b> <sup>(2)</sup>	80.0	Mar 2006–Mar 2013
	155,241		<b>155,241</b> <sup>(3)</sup>	145.0	May 2007–May 2014
	112,823		<b>112,823</b> <sup>(3)</sup>	205.5	Apr 2008–Apr 2015
	1,065,087	147,058	<b>918,029</b>		
J W Armstrong	73,529	73,529	– <sup>(2)</sup>	136.0	Sep 2002–Jul 2009
	109,289	109,289	– <sup>(2)</sup>	91.5	Mar 2003–Jul 2009
	38,253	38,253	– <sup>(2)</sup>	166.0	May 2004–Jul 2009
	11,818	11,818	– <sup>(1)</sup>	165.0	Apr 2005–Jul 2009
	28,975	28,975	– <sup>(2)</sup>	165.0	Apr 2005–Jul 2009
	86,662	86,662	– <sup>(2)</sup>	80.0	Mar 2006–Jul 2009
	49,247	49,247	– <sup>(3)</sup>	145.0	May 2007–Jul 2009
	37,181	37,181	– <sup>(3)</sup>	205.5	Apr 2008–Jul 2009
	434,954	434,954	–		

## Notes

- (1, 2) Options granted under the 1994 and 1996 Executive Share Option Schemes are generally exercisable not less than three and not more than ten years after their grant, and only then if a performance criterion has been achieved. Prior to 2001 the Group must have experienced annual growth in its earnings per share of at least 2 per cent over and above the Retail Price Index for a period of three years following the grant of the options. Options granted after 2000 carry a performance condition of annual growth in the Group's earnings per share of at least 4 per cent over and above the Retail Price Index for a period of three years following the grant of the options. The constituent parts of the condition are calculated each year to see if the performance condition has been met.
- (3) Options granted under the 2004 HMRC Approved and the Unapproved Company Share Option Plans carry a performance condition stating that the growth in the Group's earnings per share must exceed the increase in Retail Price Index by an average of 4 per cent per annum over a period of three consecutive years. Any year in which earnings per share is negative cannot be included. Options granted under these schemes lapse on the sixth anniversary of the date of grant in the event that any exercise condition is no longer capable of satisfaction.

During the year options granted to the executive Directors totalling 582,012 shares have lapsed. No options were exercised by the executive Directors.

The closing middle market prices for an Ordinary share of 25p of the Company on 31 December 2009 and 2008 as derived from the Stock Exchange Daily Official List were 73.25p and 34.88p respectively. During 2009 the middle market price of TT electronics plc Ordinary shares ranged between 19.25p and 84p.

Approved by the Board on 12 March 2010 and signed on its behalf by:

**D S Crowther**

Chairman of the Remuneration Committee