

GOVERNANCE

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2009.

Principal activities and business review

TT electronics plc is the parent company of a group whose principal activities during the year were the design, manufacture and sale of electronic and electrical components for the defence, aerospace, medical, automotive and other industrial electronics markets. Further details of the Group's activities and future plans are set out in the Chairman's statement and the Business review on pages 2 to 4 and 20 to 31 of this Annual Report and these should be read as part of the Directors' report.

The principal operating subsidiaries are listed on pages 81 to 82.

Results and dividends

The Group's profit on ordinary activities before taxation and exceptional items was £0.8 million (2008: £21.1 million). After taxation and exceptional items a loss of £19.6 million was reported (2008: profit of £11.6 million). The audited financial statements of the Group and the Company are set out on pages 47 to 82. Further details of the Group's activities are set out in the Business review on pages 20 to 31.

The Directors are not recommending a final dividend for the year ended 31 December 2009 (2008: nil). No interim dividend was paid during the year (2008: 3.69p).

Disposals

No significant disposals have been made during the year.

Post balance sheet event

On 17 February 2010, the conditional sale of Wire Systems Technology (Pty) Ltd was announced, the consideration being Rand 60 million plus an amount equal to the cash balances of the company on the day preceding the completion date, subject to completion accounts.

Fixed assets

No professional valuation of land and buildings has been carried out during the year, but in the opinion of the Directors the market value, on an existing use basis, is considered to be 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 11 to the consolidated financial statements.

Financial risk management objectives and policies

These are set out under Financial risks in the Business review on page 29.

Significant agreements relating to change of control

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

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

Supplier payments policy

The Group's policy in relation to the payment of its suppliers is to agree its terms of payment with each supplier when negotiating the terms of each business transaction. It is Group practice to abide by the agreed terms of payment unless the supplier defaults under its own obligations. Trade creditors at the year end amount to 57 days of average supplies for the year (2008: 50 days).

Employment

The Group is committed to the fair and equal treatment of all its employees regardless of gender, race, age, religion, disability or sexual orientation. Where existing employees become disabled, the policy of the Group is to provide continuing employment and training wherever practicable. The Group makes significant efforts to ensure that high standards of employee welfare are maintained worldwide in all its operations, irrespective of geography and local market conditions, and intends to seek assurances from suppliers that they too are committed to high standards of employee welfare.

Further details on the Group's policies relating to its employees are given on page 30.

Corporate governance

The application of the principles and provisions of the Combined Code is set out in the Directors' report on corporate governance on pages 37 to 41.

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Directors' report (continued)

Directors

The Directors are listed on page 32 with brief biographical notes. All the Directors held office throughout the year, with the exception of T H Roberts who was appointed on 26 January 2010. J W Newman, who had previously been executive Chairman became non-executive Chairman with effect from 1 September 2009. J W Armstrong retired on 5 January 2009.

At the forthcoming Annual General Meeting D S Crowther retires and, being eligible, offers himself for re-election. T H Roberts, having been appointed since the previous Annual General Meeting, retires in accordance with the Articles of Association and, being eligible, offers himself for re-election.

Rules for the appointment and replacement of Directors are set out in the Company's Articles of Association. Directors are appointed by the Board on the recommendation of the Nominations Committee. Directors may also be appointed or removed by the Company by ordinary resolution at a general meeting of holders of Ordinary shares. The office of a Director shall be vacated if his resignation is requested by all the other Directors, not being fewer than three in number. The Corporate governance report sets out further details of the requirements for re-election of Directors on page 37. In addition, further details of the activities of the Nominations Committee are set out on pages 39 to 40.

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 42 to 46. Copies of the executive Directors' service contracts and letters of appointment of the non-executive Directors are available for inspection by any person at the Company's registered office during normal business hours on any weekday (public holidays excepted) and at the Annual General Meeting from 15 minutes before the Annual General Meeting until it ends.

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

Directors' interests

The Directors of the Company at 31 December 2009 held interests in the following numbers of the Company's Ordinary shares of 25p each on 1 January 2009, 31 December 2009 and 8 March 2010:

	8 March 2010 Ordinary shares	31 Dec 2009 Ordinary shares	1 Jan 2009 Ordinary shares
J W Newman	10,848,627	10,848,627	10,848,627
G Anderson	140,000	140,000	90,000
S D Dasani	350,000	350,000	150,000
J W Armstrong	n/a	n/a	70,582
D S Crowther	65,000	65,000	40,000
J C Shakeshaft	15,479	15,479	15,479
S M Watson	62,950	62,950	62,950

T H Roberts, who was appointed on 26 January 2010, held interests in 33,196 of the Company's Ordinary shares of 25p each on appointment and at 8 March 2010.

The interests of the Directors in the Company's share options and Long Term Incentive Plan are shown in the Directors' remuneration report on pages 42 to 46.

Substantial shareholding notifications

At 8 March 2010 the Company had been notified of the following voting rights attaching to TT electronics plc shares in accordance with the Disclosure and Transparency Rules:

	Number	%
Legal & General Group plc and Legal & General Investment Management Limited ⁽¹⁾	15,620,319	10.0
Tweedy, Browne Company LLC	15,359,648	9.9
J O Hambro Capital Management Group Limited	15,107,960	9.7
J W Newman ⁽²⁾	9,452,010	6.1
Legal & General Group plc ⁽¹⁾	9,313,546	6.0

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

(2) At the time of the last disclosure made by J W Newman in his capacity as a substantial shareholder under the Disclosure and Transparency Rules, 9,432,437 TT electronics shares in which J W Newman had voting rights were held by Newship Investments Limited. (Newship Investments Limited is a wholly-owned subsidiary of Newship Industries Limited, in which J W Newman holds a controlling interest). Since then, various transactions have taken place and directors shareholding announcements containing details of these transactions have been released to the Stock Exchange in accordance with DTR 3.1.4R. No further disclosure has been made by J W Newman in his capacity as a substantial shareholder because these transactions have not resulted in the total number of shares over which he holds voting rights crossing a requisite threshold.

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.

Share capital

The Company's issued share capital comprises a single class of share capital which is divided into Ordinary shares of 25p each. All issued shares are fully paid. The share capital during the year and the number of Ordinary shares reserved for issue are shown in note 14 to the consolidated financial statements. The rights and obligations attaching to the Company's Ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the United Kingdom or by writing to the Group Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Holders of Ordinary shares are entitled to speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, to appoint corporate representatives and to exercise voting rights. Holders of Ordinary shares may also receive a dividend and on a liquidation may share in the assets of the Company.

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

Authority to allot shares and disapply statutory pre-emption rights

The Directors will be seeking to renew their authorities to allot unissued shares and to disapply statutory pre-emption rights at the Annual General Meeting to be held on 12 May 2010. Further details are set out in the papers containing details of the Annual General Meeting which accompany this document.

Purchase of own shares

At the Annual General Meeting held on 13 May 2009, the Company was given authority to purchase up to 15,495,279 of its Ordinary shares until the date of its next Annual General Meeting. No purchases were made during the year. The Directors will be seeking a new authority for the Company to purchase its Ordinary shares at the forthcoming Annual General Meeting. Further details are set out in the papers containing details of the Annual General Meeting which accompany this document.

Voting rights and restrictions on transfer of shares

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

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

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

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

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

- certain restrictions may from time to time be imposed by laws and regulations (for example insider trading laws);
- pursuant to the Company's share dealing code whereby the Directors and certain employees of the 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.

Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday 12 May 2010 at the offices of KBC Peel Hunt Ltd, 111 Old Broad Street, London EC2N 1PH at 11.30 am. The Notice of the Company's Annual General Meeting accompanies this document.

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Directors' report (continued)

Auditors

Grant Thornton UK LLP have expressed their willingness to continue in office as Auditors and a resolution will be proposed to reappoint them at the Annual General Meeting.

The Auditors' responsibilities are set out on pages 47 and 73 and should be read in conjunction with those of the Directors as set out below.

Going concern

The Directors have reviewed the budgets for 2010 and the projections for 2011 developed during the 2009 annual strategic planning cycle, which have been adjusted to take account of the current trading environment. Demand in most of the Group's end markets was severely affected by the global economic recession. Recognising this, the Directors have considered a range of different scenarios and the impact of these on the Group's cash flow, facilities and headroom within its banking covenants. Further, the Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities. Based on this work, 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.

Statement of Directors' responsibilities in relation to financial statements

The Directors are responsible for the preparation of the Annual Report and the financial statements for each financial year in accordance with applicable law and regulations.

The Directors are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Directors have elected to prepare the Company's financial statements under UK Generally Accepted Accounting Practice (UK GAAP).

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group.

The Directors, in preparing the financial statements, are required to:

- use suitable accounting policies and to apply them consistently;
- make reasonable and prudent judgements and estimates;
- state that the consolidated financial statements comply with IFRS as adopted by the European Union and that the Company financial statements comply with UK GAAP subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors have responsibility for:

- ensuring that the Company and the Group prepare and maintain adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group at that time and which enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation;
- taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities;
- the maintenance and integrity of the financial information on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of each Director's knowledge and belief, there is no audit information relevant to the preparation of the Auditors' report of which the Auditors are unaware and each Director has taken all the steps which might be expected to be aware of such relevant information and to establish that the Auditors are also aware of that information.

By order of the Board:

W J Sharp

Group Company Secretary

12 March 2010

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Business review 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.

G Anderson

Group Chief Executive

12 March 2010

S D Dasani

Group Finance Director