

GROUP ACCOUNTS

Consolidated income statement

for the year ended 31 December 2009

	Note	2009 £million	2008 £million
Revenue	1	499.6	584.3
Cost of sales		(420.4)	(480.8)
Gross profit		79.2	103.5
Distribution costs		(33.7)	(37.5)
Administrative expenses		(40.2)	(40.4)
Other operating income		1.2	1.4
Operating profit before exceptional items	1	6.5	27.0
Exceptional items – restructuring	4	(14.2)	(3.8)
– goodwill impairment	4	(3.8)	–
Operating (loss)/profit		(11.5)	23.2
Finance income	2	15.8	18.1
Finance costs	2	(21.5)	(24.0)
(Loss)/profit before taxation		(17.2)	17.3
Taxation	5	(2.4)	(5.7)
(Loss)/profit for the year		(19.6)	11.6
Minority interests		–	–
(Loss)/profit for the year attributable to shareholders		(19.6)	11.6
(Loss)/earnings per share	7		
– basic		(12.6)p	7.5p
– diluted		(12.6)p	7.5p

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Consolidated balance sheet

at 31 December 2009

	Note	2009 £million	2008 £million
Assets			
Non-current assets			
Property, plant and equipment	9	111.3	137.4
Goodwill	10	65.9	74.5
Other intangible assets	11	17.6	23.6
Deferred tax assets	19	4.9	5.5
Total non-current assets		199.7	241.0
Current assets			
Inventories	12	83.9	120.0
Trade and other receivables	13	85.1	111.5
Financial asset	18	0.3	–
Cash and cash equivalents	13	24.7	10.1
Total current assets		194.0	241.6
Total assets		393.7	482.6
Liabilities			
Current liabilities			
Short-term borrowings	17	11.2	51.2
Financial derivatives	18	0.5	2.9
Trade and other payables	22	88.7	99.4
Current tax payable		1.7	3.1
Provisions for liabilities	21	8.9	5.6
Total current liabilities		111.0	162.2
Non-current liabilities			
Long-term borrowings	17	70.4	72.1
Deferred tax	19	5.9	8.7
Pensions and other post-employment benefits	27	43.7	18.6
Provisions for liabilities	21	0.2	0.1
Other non-current liabilities	22	6.7	8.0
Total non-current liabilities		126.9	107.5
Total liabilities		237.9	269.7
Net assets		155.8	212.9
Equity			
Share capital	14	38.7	38.7
Share premium account		0.2	0.2
Share options reserve		1.0	1.2
Hedging reserve	15	(11.5)	(18.1)
Translation reserve	15	38.7	53.9
Retained earnings	16	86.3	134.6
Minority interests		2.4	2.4
Total equity		155.8	212.9

Approved by the Directors on 12 March 2010 and signed on their behalf by:

G Anderson
DirectorS D Dasani
Director

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Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Note	2009 £million	2008 £million
(Loss)/profit for the year		(19.6)	11.6
Exchange differences on net foreign currency investments		(10.7)	39.4
Hedging reserve		2.1	(2.1)
Actuarial net loss on defined benefit pension schemes	27	(28.7)	(3.2)
Comprehensive (expense)/income for the year attributable to shareholders		(56.9)	45.7

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Share capital £million	Share premium account £million	Share options reserve £million	Hedging reserve £million	Translation reserve £million	Retained earnings £million	Minority interest £million	Total £million
At 1 January 2008	38.7	0.2	1.1	6.1	(7.6)	141.8	2.0	182.3
Comprehensive (expense)/income for the period	–	–	–	(24.2)	61.5	8.4	–	45.7
Minority interests	–	–	–	–	–	–	0.4	0.4
Dividends paid	–	–	–	–	–	(15.6)	–	(15.6)
Share-based payment	–	–	0.1	–	–	–	–	0.1
At 31 December 2008	38.7	0.2	1.2	(18.1)	53.9	134.6	2.4	212.9
Comprehensive (expense)/income for the period	–	–	–	6.6	(15.2)	(48.3)	–	(56.9)
Share-based payment	–	–	(0.2)	–	–	–	–	(0.2)
At 31 December 2009	38.7	0.2	1.0	(11.5)	38.7	86.3	2.4	155.8

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Consolidated cash flow statement

for the year ended 31 December 2009

	Note	2009 £million	2008 £million
Operating activities			
Operating profit before exceptional items		6.5	27.0
Adjustments for:			
Depreciation of property, plant and equipment		24.1	23.4
Amortisation of intangible assets		11.8	10.9
Share-based payment (credit)/expense		(0.2)	0.1
Gain on disposal of property, plant and equipment		(0.4)	(1.9)
Pension curtailment gain		(1.9)	(1.2)
Other non-cash items		(0.5)	(4.8)
(Decrease)/increase in financial derivatives		(2.7)	2.2
Decrease/(increase) in inventories		31.1	(6.6)
Decrease in receivables		22.2	–
(Decrease)/increase in payables		(6.1)	1.0
Cash generated from operations before exceptional payments		83.9	50.1
Special payments to pension funds		(2.2)	(2.2)
Exceptional restructuring costs		(9.6)	(1.7)
Net cash generated from operations		72.1	46.2
Tax paid		(5.3)	(3.6)
Net cash from operating activities		66.8	42.6
Cash flows from investing activities:			
Purchase of property, plant and equipment		(9.4)	(21.9)
Proceeds from sale of property, plant and equipment and grants received		5.7	5.1
Development expenditure and purchase of patents and licences		(6.9)	(10.9)
Acquisition of subsidiary net of cash acquired	23	(1.0)	(13.9)
Loan repayment		–	2.0
Net cash proceeds from sale of business		–	0.9
Net cash used in investing activities		(11.6)	(38.7)
Cash flows from financing activities:			
Interest paid (net)		(3.8)	(3.8)
Repayment of loans		(17.6)	(0.6)
New loans		2.9	10.0
Finance leases		(0.1)	(0.4)
Dividends paid		–	(15.6)
Net cash used in financing activities		(18.6)	(10.4)
Net increase/(decrease) in cash and cash equivalents		36.6	(6.5)
Cash and cash equivalents at beginning of period		(12.2)	(5.2)
Exchange difference		0.1	(0.5)
Cash and cash equivalents at end of period		24.5	(12.2)
Cash and cash equivalents comprise:			
Cash and cash equivalents	13	24.7	10.1
Bank overdrafts	17	(0.2)	(22.3)
		24.5	(12.2)

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.

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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.

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Notes to the consolidated
financial statements**1 Segmental reporting**

Following the Strategy Review, the Group's businesses have been reorganised into the following divisions with effect from 1 January 2009:

- Components – specialist resistive components and microcircuits, connectors and interconnection systems.
- Sensors – electronic accelerator pedals, engine and wheel speed, temperature and pressure sensors and chassis height sensors.
- Integrated Manufacturing Services – the provision of global electronics manufacturing capability with logistics, interconnect and integrated solutions.
- Secure Power – standby generation and uninterruptible power systems manufacture and service.
- General Industrial – manufacturing operations serving a range of market sectors with applications including magnetics, electrical fusegear, compounding and fine wire.

Further descriptions of the operating segments are given in the Business review on pages 22 to 26. Comparatives have been restated.

	Revenue		Sector result	
	2009 £million	2008 £million	2009 £million	2008 £million
– Components	190.8	192.1	5.9	9.7
– Sensors	105.4	125.9	(3.9)	1.1
– Integrated Manufacturing Services	75.1	103.4	2.4	6.0
– Secure Power	59.1	65.9	4.8	7.8
– General Industrial	69.2	97.0	(2.7)	2.4
Total	499.6	584.3	6.5	27.0
Exceptional operating items (note 4)			(18.0)	(3.8)
Operating (loss)/profit			(11.5)	23.2
Finance income (note 2)			15.8	18.1
Finance costs (note 2)			(21.5)	(24.0)
(Loss)/profit before tax			(17.2)	17.3
Taxation (note 5)			(2.4)	(5.7)
(Loss)/profit for the year			(19.6)	11.6

There are no significant sales between sectors.

	Assets		Liabilities		Total capital employed	
	2009 £million	2008 £million	2009 £million	2008 £million	2009 £million	2008 £million
– Components	181.1	226.8	32.3	38.3	148.8	188.5
– Sensors	80.9	98.1	25.2	24.6	55.7	73.5
– Integrated Manufacturing Services	39.1	56.9	19.2	22.2	19.9	34.7
– Secure Power	28.8	33.9	17.2	15.5	11.6	18.4
– General Industrial	34.2	51.3	11.0	15.5	23.2	35.8
Sector assets and liabilities	364.1	467.0	104.9	116.1	259.2	350.9
Pensions and other post-employment benefits	–	–	43.7	18.6	(43.7)	(18.6)
Unallocated assets and liabilities	29.6	15.6	89.3	135.0	(59.7)	(119.4)
Total net assets	393.7	482.6	237.9	269.7	155.8	212.9

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Notes to the consolidated
financial statements (continued)

1 Segmental reporting (continued)

	Capital additions		Depreciation and amortisation	
	2009 £million	2008 £million	2009 £million	2008 £million
– Components	3.9	11.2	13.9	13.6
– Sensors	9.1	16.0	16.5	14.2
– Integrated Manufacturing Services	0.5	1.0	2.2	2.3
– Secure Power	0.4	1.0	0.6	0.6
– General Industrial	2.4	3.6	2.7	3.2
Total – before exceptional items	16.3	32.8	35.9	33.9
Exceptional items	–	–	–	0.4
Total	16.3	32.8	35.9	34.3

Geographical analysis

The Group operates globally. Revenue by geographical destination is:

	2009 £million	2008 £million
United Kingdom	91.5	108.3
Rest of Europe	195.9	213.4
North America	132.5	154.3
Rest of the World	79.7	108.3
	499.6	584.3

Revenue from transactions with any individual major customers is below 10% of Group revenues. Revenue from services is less than 2% of Group revenues. All other revenue is from the sale of goods.

The carrying amount of non current assets, excluding deferred tax assets, analysed by the geographical area in which the assets are located is as follows:

	2009 £million	2008 £million
United Kingdom	40.0	47.6
Rest of Europe	58.7	72.0
North America	84.5	101.3
Rest of the World	11.6	14.6
	194.8	235.5

2 Finance costs – net

	2009 £million	2008 £million
Interest receivable	0.2	0.4
Expected return on pension scheme assets	15.6	17.7
Finance income	15.8	18.1
Interest on bank overdrafts and loans	3.6	4.4
Interest on finance leases	–	0.1
Unwinding of the discount on pension scheme liabilities	17.9	19.5
Finance costs	21.5	24.0
Finance costs – net	5.7	5.9

3 (Loss)/profit for the year

(Loss)/profit for the year is stated after charging/(crediting):

	2009 £million	2008 £million
Depreciation of property, plant and equipment	24.1	23.4
Amortisation of intangible assets included in cost of sales	11.8	10.9
Net foreign exchange losses	0.8	1.1
Cost of inventories recognised as an expense	420.4	480.8
Employee emoluments	139.3	153.9
Fees to Group Auditors		
– Company and consolidation statutory audits	0.1	0.1
Fees to Group Auditors and associates		
– statutory audit of subsidiaries	0.8	0.8
– tax services	0.2	0.2
Fees to other Auditors		
– statutory audit of subsidiaries	0.1	0.1
– tax services	0.1	0.1
Government grants credited	(1.1)	(1.4)
Share-based payment	(0.2)	0.1

4 Exceptional items

	2009 £million	2008 £million
Restructuring costs		
AB Automotive – closure costs	4.1	2.7
– property profit	(0.9)	–
General Industrial – Climate control exit costs	3.2	2.7
Sensors – European restructuring	7.4	–
Sensors – Romford closure	0.4	1.1
IMS – UK consolidation including Aylesbury closure	1.2	–
Components – BI SMT closure of manufacturing	1.0	–
General Industrial restructuring	1.4	–
Other restructuring	0.6	–
Profit on sale of properties	(1.0)	–
Exceptional restructuring costs	14.2	3.8
Exceptional impairment of goodwill, see note 10	3.8	–
Exceptional items	18.0	3.8

Exceptional restructuring costs include redundancy costs of £13.7 million, impairment to plant and equipment of £1.0 million, loss on disposal of surplus plant and equipment of £1.0 million and stock write offs of £0.4 million.

The Group reports 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.

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Notes to the consolidated
financial statements (continued)

5 Taxation

	2009 £million	2008 £million
Current tax	4.1	5.9
Deferred tax (note 19)	(1.7)	(0.2)
	2.4	5.7

UK tax is calculated at 28% (2008: 28.5%) of taxable profit. Overseas tax is calculated at the rates ruling in the relevant countries. Despite the Group reporting a loss before taxation a tax charge of £2.4 million (2008: £5.7 million) has arisen due to profits generated in certain overseas countries. An overall tax rate of 33% was reported for 2008.

The tax charge is explained as follows:

	2009 £million	2008 £million
(Loss)/profit before taxation	(17.2)	17.3
Tax at the UK income tax rate	(4.8)	4.9
Effect of tax rates of non-UK subsidiaries	(0.1)	0.6
Utilisation of losses not previously recognised	(1.0)	(1.1)
Losses for which no deferred tax asset is recognised	8.0	0.5
Expenses not deductible for tax purposes	0.9	0.8
Other	(0.6)	–
	2.4	5.7

6 Dividends

No dividends have been paid in the year:

	2009 pence per share	2009 £million	2008 pence per share	2008 £million
Final dividend for prior year	–	–	6.36	9.9
Interim dividend for current year	–	–	3.69	5.7
	–	–	10.05	15.6

The Directors are not recommending the payment of a final dividend for 2009.

7 (Loss)/earnings per share

	2009 pence per share	2008 pence per share
Headline ⁽¹⁾	(1.3)	9.2
Basic	(12.6)	7.5
Diluted	(12.6)	7.5

(Loss)/earnings per share has been calculated by dividing the (loss)/profit attributable to shareholders by the weighted average number of shares in issue during the year. The numbers used in calculating basic and fully diluted earnings per share are reconciled below:

	2009 £million	2008 £million
(Loss)/profit for the year attributable to shareholders	(19.6)	11.6

7 (Loss)/earnings per share (continued)

Weighted average number of shares in issue:

	2009 million	2008 million
Basic	155.0	155.0
Adjustment for share options	–	0.1
Diluted	155.0	155.1

(1) Headline loss per share on continuing operations before exceptional items of 1.3p (2008: earnings of 9.2p) is based on the loss for the year of £19.6 million (2008: profit of £11.6 million) adjusted for exceptional items of £18.0 million (2008: £3.8 million) less the associated taxation of £0.4 million (2008: £1.1 million).

8 Employees

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

	2009 number	2008 number
By function		
Production	5,369	6,455
Sales and distribution	598	645
Administration	436	492
	6,403	7,592
By sector		
– Components	3,027	3,326
– Sensors	1,044	1,280
– Integrated Manufacturing Services	1,056	1,343
– Secure Power	587	630
– General Industrial	689	1,013
Total continuing operations	6,403	7,592

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

	2009 £million	2008 £million
Wages and salaries	115.3	129.1
Employers' social security charges	20.2	21.3
Employers' pension costs	3.8	3.5
	139.3	153.9

Remuneration in respect of the Directors was as follows:

	2009 £million	2008 £million
Emoluments	1.1	1.7

Further details of individual Directors' remuneration, pension benefits and share options are shown in the Directors' remuneration report on pages 42 to 46.

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Notes to the consolidated
financial statements (continued)

9 Property, plant and equipment

	Land and buildings £million	Plant and equipment £million	Total £million
Cost			
At 1 January 2008	55.9	291.3	347.2
Additions	3.4	18.5	21.9
Acquisition of subsidiary	2.6	2.6	5.2
Disposals	(3.7)	(8.7)	(12.4)
Exchange translation differences	10.9	60.6	71.5
At 1 January 2009	69.1	364.3	433.4
Additions	0.5	8.9	9.4
Disposals	(1.9)	(26.2)	(28.1)
Exchange translation differences	(2.9)	(15.9)	(18.8)
At 31 December 2009	64.8	331.1	395.9
Accumulated depreciation and impairment			
At 1 January 2008	13.7	221.5	235.2
Depreciation charge for the year	1.7	21.7	23.4
Acquisition of subsidiary	–	1.0	1.0
Eliminated on disposals	(2.7)	(8.3)	(11.0)
Exchange translation differences	2.5	44.9	47.4
At 1 January 2009	15.2	280.8	296.0
Depreciation charge for the year	2.1	22.0	24.1
Impairment	–	1.0	1.0
Eliminated on disposals	(0.2)	(23.7)	(23.9)
Exchange translation differences	(0.8)	(11.8)	(12.6)
At 31 December 2009	16.3	268.3	284.6
Carrying amount			
At 31 December 2009	48.5	62.8	111.3
At 31 December 2008	53.9	83.5	137.4

The following rates are used for the depreciation of property, plant and equipment:

Freehold property	2%
Leasehold land and buildings	2% (or over the period of the lease if less than 50 years)
Plant and equipment	10% to 33%

The carrying amount of land and buildings includes £0.3 million (2008: £0.4 million) in respect of assets held under finance leases.

The impairment of plant and equipment relates to items that are no longer of economic value following the exit from the climate control business.

10 Goodwill

	£million
Cost	
At 1 January 2008	52.3
Acquisition of subsidiaries	5.7
Exchange translation differences	16.5
At 1 January 2009	74.5
Impairment	(3.8)
Exchange translation differences	(4.8)
At 31 December 2009	65.9

Goodwill is primarily attributed to the following cash generating units in the sectors shown:

	£million
BI Technologies – Components	28.5
Optek Technology Inc – Components, after impairment of £3.8 million	18.0
TT electronics integrated manufacturing services, Inc USA – Integrated Manufacturing Services	7.9
TT electronics integrated manufacturing services (Suzhou) Co Ltd – Integrated Manufacturing Services	5.1
New Chapel Electronics Limited – Components	3.4
Semelab Limited – Components	2.3

Goodwill has been tested for impairment by assessing the value in use of the relevant cash generating units. The value in use calculations were based on projected cash flows for the years 2010 onwards. Cash flows for 2010 are based on the budget for the year, which was finalised in December 2009. Cash flows for 2011 and 2012 are based on the financial data derived from the annual strategic review. The strategic review was conducted for every subsidiary and reviewed in depth by key management. The results of the strategic review have been endorsed by the Board.

Cash flows for 2013 and 2014 assume sales growth of 6% per annum and beyond 2014 the assumed sales growth rate is 2%. Using these conservative assumptions and discounting future cash flows by 10% per annum which is the estimated weighted average cost of capital for the businesses concerned, there was no impairment except for Optek Technology Inc where the impairment was £3.8 million. Sensitivity analyses using a range of sales growth projections and discount rates confirmed that Optek's goodwill was impaired but that the remainder were not impaired. The sensitivity analyses for Optek showed a range from no impairment (sales growth of 10% up to 2013 and 3% in perpetuity and a discount rate of 10%) to impairment of £7.4 million (based on 6% sales growth up to 2015 and 3% thereafter discounted at 12%). The conclusion reached from the value in use assessments and consideration of Optek's trading history was that the goodwill attributable to Optek Technology Inc of £21.8 million was impaired by £3.8 million.

GROUP ACCOUNTS

Notes to the consolidated
financial statements (continued)

11 Other intangible assets

	Product development costs £million	Patents and licences £million	Customer relationships £million	Total £million
Cost				
At 1 January 2008	27.7	3.7	1.1	32.5
Additions	10.3	0.6	–	10.9
Acquisition of subsidiaries	–	0.2	2.3	2.5
Retirements	(9.3)	–	–	(9.3)
Exchange translation differences	7.3	0.2	0.2	7.7
At 1 January 2009	36.0	4.7	3.6	44.3
Additions	6.9	–	–	6.9
Retirements	(10.6)	–	–	(10.6)
Exchange translation differences	(2.0)	(0.1)	(0.1)	(2.2)
At 31 December 2009	30.3	4.6	3.5	38.4
Amortisation				
At 1 January 2008	13.4	1.3	0.5	15.2
Charge for the year	10.0	0.4	0.5	10.9
Retirements	(9.3)	–	–	(9.3)
Exchange translation differences	3.6	0.1	0.2	3.9
At 1 January 2009	17.7	1.8	1.2	20.7
Charge for the year	10.8	0.4	0.6	11.8
Retirements	(10.6)	–	–	(10.6)
Exchange translation differences	(1.0)	–	(0.1)	(1.1)
At 31 December 2009	16.9	2.2	1.7	20.8
Carrying amount				
At 31 December 2009	13.4	2.4	1.8	17.6
At 31 December 2008	18.3	2.9	2.4	23.6

Product development costs are amortised over up to three years and are retired when fully written-off. Patents and licences are amortised over ten years. The attributed value of customer relationships are amortised over 3-8 years.

12 Inventories

	2009 £million	2008 £million
Raw materials	37.8	51.9
Work in progress	19.5	24.3
Finished goods	26.6	43.8
	83.9	120.0

Inventories are stated after deduction of a provision for slow moving and obsolete items of £17.9 million (2008: £19.0 million). The carrying amount of inventories has reduced by £4.7 million as a result of currency exchange rate movements.

13 Other financial assets and prepayments**Financial assets**

	2009 £million	2008 £million
Loans and receivables (including cash and cash equivalents)	101.8	113.0
Financial derivatives	0.3	–
	102.1	113.0

	2009 £million	2008 £million
Trade and other receivables		
Trade receivables	68.3	98.1
Prepayments	8.0	8.1
Other debtors	8.8	5.3
	85.1	111.5

The carrying amount of trade and other receivables approximates to their fair value.

	2009 £million	2008 £million
Financial derivatives	0.3	–

Financial derivatives are the market value of forward currency contracts.

	2009 £million	2008 £million
Cash and cash equivalents	24.7	10.1

Cash and cash equivalents comprise bank balances and short-term bank deposits. The carrying amount approximates to fair value.

Credit risk

Credit risk arises from the possibility that counterparties may not be able to settle their obligations as they fall due. The credit risk on the cash and cash equivalents is negligible because the counterparties are banks with high credit ratings. The carrying amount approximates to fair value.

Trade receivables are stated net of an allowance for estimated irrecoverable amounts of £2.3 million (2008: £2.8 million) and the carrying amount approximates to fair value. 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.

An analysis of the age of loans and receivables (excluding cash) that were past due at the year end but for which no impairment provision was made is:

	2009 £million	2008 £million
Not more than three months	11.0	20.7
More than three months but not more than six months	1.1	1.4
More than six months but not more than 1 year	1.3	0.1
	13.4	22.2

The Group has strict procedures in place to manage the credit risk on trade receivables. It ensures credit limits are properly authorised and that debts are collected in a timely manner.

Trade receivables are denominated in the currencies in which the Group trades. The Group's policy is that receivables and payables not in the functional currency of the subsidiary concerned are covered by forward foreign currency exchange contracts. The exchange risk at Group level is therefore restricted to the risk on the translation of overseas assets, liabilities and cash flows into sterling.

GROUP ACCOUNTS

Notes to the consolidated
financial statements (continued)**13 Other financial assets and prepayments (continued)**

Financial assets analysed by currency are:

	2009 £million	2008 £million
Sterling	35.8	35.5
US dollar	18.5	24.5
Euro	30.4	23.3
Other	17.4	29.7
	102.1	113.0

14 Share capital

	2009 £million	2008 £million
Authorised		
226,000,000 (2008: 226,000,000) Ordinary shares of 25p each	56.5	56.5
Issued and fully paid		
154,952,795 (2008: 154,952,795) Ordinary shares of 25p each	38.7	38.7

The Ordinary shares of 25p each are equity share capital.

Potential issues of Ordinary shares

The Company has share option schemes, which are closed for future grants, and a Long Term Incentive Plan ("LTIP") for senior executives.

Details of the share options outstanding during the year are:

	2009		2008	
	Number of share options	Weighted average Exercise price (p)	Number of share options	Weighted average exercise price (p)
At 1 January	4,145,419	134.2	5,136,108	135.0
Granted	–	–	–	–
Forfeited	(1,036,879)	125.6	(849,302)	111.4
Exercised	–	–	–	–
Expired	(490,497)	146.4	(141,387)	300.0
At 31 December	2,618,043	135.3	4,145,419	134.2
Exercisable at 31 December	447,419	145.0	546,730	145.0

For share options outstanding at 31 December 2009 the range of exercise prices was 80.0p to 205.5p (2008: 80.0p to 205.5p) and the weighted average remaining contractual life was 3.0 years (2008: 3.4 years). Options are equity settled, have a life of ten years (with the exception of certain schemes where the options lapse after six years if the performance criteria are not achieved) and vest after three years. Exercise of the options is conditional on there being an increase in earnings per share over any consecutive three year period of 2% per annum for options granted prior to 2001 and 4% per annum for options granted after 2000 above the increase in the Retail Price Index over the same period.

On 5 May 2009 and 27 October 2009 grants of awards were made under the LTIP for the issue of up to 3,799,835 and 202,667 shares in 2012. During the year, 733,953 shares were forfeited and 5,458,293 shares were outstanding as at 31 December 2009 (2008: 2,189,744 shares).

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 granted in 2009 require the achievement of earnings per share ("EPS") and total shareholder return ("TSR") targets as follows:

- The performance target attached to 50% of an award is based on three year EPS targets: 25% of the shares subject to this part of the award will vest for EPS growth of 3% compound per annum in excess of Retail Price Index ("RPI"), increasing on a straight-line basis to 100% vesting for EPS growth of at least 7% compound per annum in excess of RPI; and
- The performance target attached to the other 50% of an award is based on TSR performance targets against companies within the FTSE SmallCap (excluding investment trusts) index; 25% of shares subject to this part of the award will vest at median performance increasing on a straight-line basis to 100% 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.

14 Share capital (continued)

The estimated fair values of the LTIP grants on 5 May 2009 and 27 October 2009 are 28.75p and 75.0p per share respectively for those with non market conditions and 7.19p and 18.75p per share for those with market conditions respectively. These fair values were calculated using the following inputs:

	5 May Market Condition	5 May Non-Market Condition	27 October Market Condition	27 October Non-Market Condition
Share price	28.75p	28.75p	75.0p	75.0p
Dividend per annum	–	–	–	–
Grant vesting	100%	25%	100%	25%

The Group credited £0.2 million (2008: charge of £0.1 million) to the Consolidated income statement in respect of share-based payments. The credit represents the cost allocated to 2009 in respect of the LTIP grants in 2007, 2008 and 2009 offset by credits arising from the 2006 LTIP not vesting and attrition to options and LTIPs issued in 2003, 2005, 2007 and 2008.

15 Hedging and translation reserves

	Hedging reserve £million	Translation reserve £million	Total £million
At 1 January 2008	6.1	(7.6)	(1.5)
Exchange differences on translation of foreign operations	–	61.5	61.5
Exchange differences on US\$124 million borrowings	(22.1)	–	(22.1)
Cash flow hedges	(2.1)	–	(2.1)
At 1 January 2009	(18.1)	53.9	35.8
Exchange differences on translation of foreign operations	–	(15.6)	(15.6)
Tax on exchange differences	–	0.4	0.4
Exchange differences on US\$124 million borrowings	4.5	–	4.5
Cash flow hedges	2.1	–	2.1
At 31 December 2009	(11.5)	38.7	27.2

16 Retained earnings

	£million
At 1 January 2008	141.8
Profit for the year	11.6
Actuarial net loss on defined benefit pension schemes	(3.2)
Dividends paid	(15.6)
At 1 January 2009	134.6
Loss for the year	(19.6)
Actuarial net loss on defined benefit pension schemes (see note 27)	(28.7)
At 31 December 2009	86.3

GROUP ACCOUNTS

Notes to the consolidated
financial statements (continued)

17 Borrowings

	2009 £million	2008 £million
Bank overdrafts	0.2	22.3
Bank loans	81.0	100.5
Finance leases	0.4	0.5
	81.6	123.3

The borrowings are repayable as follows:

	2009 £million	2008 £million
In one year or less	11.2	51.2
In more than one year but not more than two years	70.0	1.7
In more than two years but not more than three years	0.1	70.0
In more than three years but not more than four years	0.1	0.1
In more than four years but not more than five years	0.1	0.1
In more than five years	0.1	0.2
In more than one year	70.4	72.1

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2009 £million	2008 £million
Sterling	75.6	22.2
US dollar	–	89.0
Euro	6.0	11.7
Other	–	0.4

Borrowings of £77.0 million (2008: £96.9 million) are at fixed interest rates for an average period of 0.1 years (2008: 0.4 years).

The average interest rates at the balance sheet date were:

	2009 %	2008 %
Bank overdrafts	5.5	3.1
Bank loans	1.1	4.0
Finance leases	8.0	7.8

The estimated fair value of borrowings is:

	2009 £million	2008 £million
Bank overdrafts	0.2	22.3
Bank loans	81.0	100.5
Finance leases	0.4	0.5

The borrowing facilities available to the Group at 31 December 2009 amounted to £142.1 million (2008: £166.2 million).

At 31 December 2009, the Group had available £27.8 million (2008: £14.9 million) of undrawn committed borrowing facilities.

The Group borrowings at 31 December 2009 are funded mainly through bank overdrafts including short-term committed facilities of £38.7 million and a committed unsecured £70.0 million multi-currency revolving bank loan facility which expires in April 2011. Under this facility funds can be drawn in sterling, US dollars or euros or a combination thereof at fixed rates of interest for periods varying from one month to a year. Interest rates are at a fixed margin over the inter-bank borrowing rate at the date the funds are drawn. The £70 million multi-currency bank loan was drawn down in US dollars up to 2 June 2009 and in sterling thereafter. The Group's approach to liquidity risk is described in the Business review.

17 Borrowing (continued)**Hedge of net investment**

The Group had designated \$124.0 million of its borrowings as a currency hedge of its US dollar denominated net assets until 2 June 2009. This is an effective partial hedge. The net result of translating the US dollar net assets and the \$124.0 million of borrowings is dealt with in the translation and hedging reserves and reported in the Consolidated statement of comprehensive income, together with the exchange difference arising from the translation of the Group's other overseas net assets.

In 2009 there was a net loss of £10.7 million (2008: net gain of £39.4 million) on translation of overseas assets after accounting for this hedge.

Reconciliation of net cash flow to movement in net debt

	Net cash/ overdraft £million	Loans and finance leases £million	Net debt £million
At 1 January 2008	(5.2)	(69.8)	(75.0)
Cash flow	(6.5)	(9.0)	(15.5)
Exchange differences	(0.5)	(22.2)	(22.7)
At 31 December 2008	(12.2)	(101.0)	(113.2)
Cash flow	36.6	14.8	51.4
Exchange differences	0.1	4.8	4.9
At 31 December 2009	24.5	(81.4)	(56.9)

18 Derivative financial instruments

	2009 Assets £million	2008 Assets £million	2009 Liabilities £million	2008 Liabilities £million
Forward foreign currency contracts	0.3	–	–	2.9
Interest rate hedge	–	–	0.5	–

The Group uses forward foreign exchange contracts to reduce currency exposure on sales and purchasing transactions for up to a year ahead.

At 31 December 2009 the Group had an interest rate cap applying to \$50.0 million of borrowings at a rate of 4.75% from 4 February 2008 to 4 February 2010. This cap is designated as a cash flow hedge and marked to market at the year end. At 31 December 2009 and 31 December 2008 the market value was £nil million.

At 31 December 2009 the Group had an interest rate swap fixing the interest rate on \$50.0 million of borrowings to April 2011. This swap is designated as a cash flow hedge and marked to its market value, a liability of £0.5 million at the year end.

The Group hedged the effect of currency movements against sterling on the translation of 2009 profit earned in US dollars and Chinese yuan, by selling forward US dollars and Chinese yuan for sterling at fixed exchange rates. At 31 December 2009 contracts were in place to hedge the translation of 2010 profits for \$3.6 million and euro 0.6 million. Subsequently contracts for the sale of a further \$4.0 million were entered into. The contracts were marked to market at 31 December 2009 and were a net liability of less than £0.1 million.

The Group's financial assets and liabilities are sensitive to movements in currency exchange rates against sterling. Analysis of financial assets and liabilities by currency are given in notes 13 and 22, the major overseas currencies being the US dollar and the euro. The effect of any such currency movement on the net financial liabilities is reported in equity in the Group accounts.

US dollar – effect of 10% strengthening: an increase in equity of £0.3 million

Euro – effect of 10% strengthening: an increase in equity of £1.2 million

Whilst the Group had a small net financial asset in US dollars, overall it had a large net asset position when taking into account inventory and non-current assets. Details of the Group's exposure to risk are given on pages 28 to 29 of the Business review.

GROUP ACCOUNTS

Notes to the consolidated
financial statements (continued)

19 Deferred tax

	Accelerated capital allowances £million	Deferred development costs £million	Retirement benefit obligations £million	Other £million	Total £million
At 1 January 2008	(5.4)	(4.1)	4.3	3.4	(1.8)
Income statement	0.6	(0.1)	–	(0.3)	0.2
Exchange differences	(1.6)	(1.3)	(0.2)	1.5	(1.6)
At 1 January 2009	(6.4)	(5.5)	4.1	4.6	(3.2)
Income statement	(0.3)	1.2	0.9	(0.1)	1.7
Exchange differences	0.5	0.3	0.2	(0.5)	0.5
At 31 December 2009	(6.2)	(4.0)	5.2	4.0	(1.0)

	2009 £million	2008 £million
Deferred tax assets	4.9	5.5
Deferred tax liabilities	(5.9)	(8.7)

At 31 December 2009 the Group had unused tax losses of £28.2 million (2008: £14.0 million) for which no deferred tax asset has been recognised. None of these tax losses have an expiry date.

At the balance sheet date the aggregate unrecognised deferred tax liability in respect of undistributed earnings of subsidiaries is £1.4 million (2008: £2.1 million).

20 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2009 £million	2008 £million	2009 £million	2008 £million
Amounts payable under finance leases:				
One year or less	0.1	0.1	0.1	0.1
Between one and five years	0.3	0.3	0.2	0.2
Over five years	0.1	0.2	0.1	0.2

The obligations derive mainly from property leases where the risks and rewards of ownership are considered to be with the Group and which are therefore accounted for as finance leases. The average implicit interest rate used to evaluate the obligation is 8% (2008: 8%). The fair value of the lease obligation approximates to carrying amount. Total minimum lease payments include £0.1 million (2008: £0.1 million) of future finance costs.

21 Provisions for liabilities

	Reorganisation £million	Environmental £million	Legal and other claims £million	Total £million
At 1 January 2009	2.5	0.1	3.1	5.7
Utilised	(9.6)	–	(1.0)	(10.6)
Transfer from/(to) Consolidated income statement	13.7	–	0.3	14.0
At 31 December 2009	6.6	0.1	2.4	9.1

The reorganisation provision relates to the restructuring programme described in note 4. The environmental provision is for probable clean up costs of ex-production sites. Legal and other claims represent the best estimate for the cost of settling outstanding product and other claims.

The total provisions are analysed:

	2009 £million	2008 £million
Non-current	0.2	0.1
Current	8.9	5.6
	9.1	5.7

22 Trade and other payables

	2009 £million	2008 £million
Financial liabilities		
Financial derivatives	0.5	2.9
Other financial liabilities	143.2	190.2
	143.7	193.1
Current liabilities		
Trade payables	50.5	58.7
Taxation and social security	5.6	4.7
Other payables, accruals and deferred income	32.6	36.0
	88.7	99.4
Non-current liabilities		
Accruals and deferred income	6.7	8.0

The carrying amount of trade and other payables approximates to their fair value.

Trade and other payables are denominated in the currencies in which the Group trades. The Group's policy is that trade receivables and payables not in the functional currency of the subsidiary concerned are covered by forward foreign currency exchange contracts. The exchange risk at Group level is therefore restricted to the risk on the translation of overseas assets, liabilities and cash flows into sterling.

Financial liabilities comprising trade and other creditors, bank overdrafts and other borrowings analysed by currency are:

	2009 £million	2008 £million
Sterling	98.4	52.2
US dollar	15.2	100.6
Euro	18.4	22.6
Other	11.7	17.7
	143.7	193.1

The maturity analysis of financial liabilities (including estimated interest where appropriate) is as follows:

	2009 £million	2008 £million
0 – 6 months	73.4	102.2
6 months – 1 year	0.7	24.0
1 – 2 years	70.4	4.5
2 – 3 years	0.1	70.7
Over 3 years	0.3	0.4
	144.9	201.8

23 Acquisition of subsidiaries

The Group acquired New Chapel Electronics Limited on 2 April 2008 and assets comprising the majority of the business of Semelab Limited on 21 August 2008. The Group owns 100% of the equity of the acquired entities. The total consideration for these assets was £14.9 million of which £13.9 million was paid in 2008. Deferred consideration capped at £1.0 million was paid in 2009 in respect of New Chapel Electronics Limited. The fair value of the assets acquired was £9.2 million.

24 Contingent liabilities

The Group has contingent liabilities amounting to £1.5 million (2008: £2.7 million) in respect of performance bonds and guarantees entered into in the normal course of business. The Group is the subject of claims which arise in the ordinary course of business. Other than those for which provisions have been included within note 21, the Directors consider the likelihood of any other claims giving rise to a liability to be remote.

GROUP ACCOUNTS

Notes to the consolidated
financial statements (continued)**25 Capital commitments**

	2009 £million	2008 £million
Contractual commitments for the purchase of property, plant and equipment	1.8	6.3

26 Operating leases

	2009 £million	2008 £million
Minimum operating lease payments charged to operating profit:		
Fixtures and equipment	0.3	0.3
Land and buildings	4.4	4.6

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

	2009 £million	2008 £million
In less than one year	4.0	4.6
Between one and five years	9.1	11.0
After five years	4.0	4.2

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.

27 Retirement benefit schemes**Defined contribution schemes**

The Group operates defined contribution schemes in the United Kingdom and the Rest of the World and 401(k) plans in North America. 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 £2.1 million (2008: £1.6 million).

Defined benefit schemes

The Group operated one significant defined benefit pension scheme in the United Kingdom and two overseas. The Company has reached agreement with the UK scheme for additional fixed contributions extending to 2016 based on the actuarial deficit at April 2007. These planned contributions amount to: 2010 £3.2 million, 2011 £3.5 million then increasing by £0.2 million each year to £4.5 million in 2016. The freeze on pensionable salaries in the UK was extended by one year to April 2011 and this generated a curtailment gain of £1.2 million. The Group also operates defined benefit schemes in the United States and Japan. The United States defined benefit scheme was closed to further accruals in 2009 and this gave rise to a curtailment gain of £0.7 million. All these schemes are closed to new members. Actuarial valuations of the schemes were carried out by independent qualified actuaries in 2007 and 2009 using the projected unit credit method. These actuarial valuations have been updated by the actuaries to assess the assets and liabilities of the schemes at 31 December 2009. Pension scheme assets are stated at market value at 31 December 2009. The Group has entered into discussions with affected staff on the proposed closure to future accrual of its defined benefit scheme in the UK.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2009 %	2008 %
Discount rate	5.8	6.1
Inflation rate	3.4	2.9
Increases to pensions in payment	2.5–3.4	2.2–2.9
Salary increases to April 2011 (pensionable salaries have been frozen)	–	–
Salary increases thereafter	3.9	3.4

A decrease in the discount rate by 0.1 % per annum increases the liabilities by approximately £6.6 million. An increase in the inflation rate of 0.1 % per annum increases the liabilities by approximately £5.7 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:

	2010	2009	2008
Equities	7.8	7.0	7.4
Bonds	5.2	5.4	5.9
Gilts and swaps	3.8	3.0	4.4
Cash	0.1	1.3	4.7

The mortality tables applied by the actuaries at 31 December 2009 were PA92 MC + two years.

27 Retirement benefit schemes (continued)

The amounts recognised on the Consolidated balance sheet are:

	2009 £million	2008 £million	2007 £million	2006 £million	2005 £million	2004 £million
Equities	190.0	174.7	182.0	187.8	170.5	154.6
Bonds	36.8	25.8	12.4	10.9	2.9	4.0
Gilts and cash	61.6	48.7	103.8	73.4	72.3	44.9
Swaps	18.1	33.9	–	–	–	–
Fair value of assets	306.5	283.1	298.2	272.1	245.7	203.5
Present value of funded obligation	(350.2)	(301.7)	(315.6)	(344.7)	(335.9)	(274.4)
Net liability recognised on the Consolidated balance sheet	(43.7)	(18.6)	(17.4)	(72.6)	(90.2)	(70.9)

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:

	2009 £million	2008 £million
Current service cost	1.7	1.9
Curtailement	(1.9)	(1.2)
Interest on obligation	17.9	19.5
Expected return on schemes' assets	(15.6)	(17.7)

Of the current service cost of £1.7 million (2008: £1.9 million), £1.1 million (2008: £1.3 million) is included in cost of sales in the income statement, £0.3 million (2008: £0.3 million) is included in distribution costs and £0.3 million (2008: £0.3 million) is included in administrative expenses. The actual return on schemes' assets was a gain of £31.4 million (2008: a loss of £7.7 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 £26.6 million.

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

	2009 £million	2008 £million
Opening defined benefit obligation	301.7	315.6
Current service cost	1.7	1.9
Interest on obligation	17.9	19.5
Scheme participant contributions	1.0	1.2
Curtailement	(1.9)	(1.2)
Change in actuarial estimates and assumptions	44.5	(22.2)
Exchange differences	(0.6)	2.2
Benefits paid	(14.1)	(15.3)
Closing defined benefit obligation	350.2	301.7

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

	2009 £million	2008 £million
Opening fair value of schemes' assets	283.1	298.2
Expected return on schemes' assets	15.6	17.7
Excess/(deficit) of actual over expected returns	15.8	(25.4)
Contributions by employer	5.4	5.1
Contributions by employees	1.0	1.2
Exchange differences	(0.3)	1.6
Benefits paid	(14.1)	(15.3)
Closing fair value of schemes' assets	306.5	283.1

GROUP ACCOUNTS

Notes to the consolidated
financial statements (continued)**27 Retirement benefit schemes (continued)**

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

	2009 £million	2008 £million	2007 £million	2006 £million	2005 £million	2004 £million
Experience adjustments on schemes' liabilities	(44.5)	22.2	37.8	(6.2)	(47.6)	(19.1)
Experience adjustments on schemes' assets	15.8	(25.4)	0.5	9.4	21.6	8.9
	(28.7)	(3.2)	38.3	3.2	(26.0)	(10.2)

The Group expects to contribute approximately £6.0 million to defined benefit schemes in 2010.

28 Related party transactions

	Purchase of goods and services		Sale of goods and services		Rents paid		Rents received		Amounts owed to related parties	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
TT electronics plc	–	1	1	9	110	165	–	5	–	16
Subsidiaries	–	–	–	–	–	2	–	–	–	–
	–	1	1	9	110	167	–	5	–	16

Sales and purchases of goods and services were on normal credit terms at third party prices. Rentals, which included for premises used by J W Newman in performing duties as executive Chairman up to 31 August 2009, were calculated on open market bases and paid to agreed terms.

As part of the demerger from TT electronics plc on 14 May 2001 two loans totalling £8 million were made to Newship Limited (formerly Send Group Limited). Subsequently, Newship Limited became a related party on 15 November 2002. One loan of £6.0 million was repaid in 2004 and the other of £2.0 million was repaid on 15 May 2008. Interest on the loan amounted to £46,000 for 2008.

Compensation of key management personnel

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

	2009 £million	2008 £million
Short-term benefits	2.3	2.5
Compensation for loss of office	0.1	0.4
Post-employment benefits	0.2	0.2
Share-based payments	–	0.1
	2.6	3.2

Key management personnel comprise the Directors, Company Secretary, Divisional Chief Executives and Divisional Directors. Their compensation is considered and recommended to the Board by the Remuneration Committee.

29 Post balance sheet event

On 17 February 2010, the Group announced the disposal of its wholly-owned South African subsidiary Wire Systems Technology (Pty) Ltd (WST). The sale will complete following approval from the South African authorities. The consideration payable on completion is Rand 60 million, plus cash on completion, adjusted by the difference between the net assets on completion and Rand 77.8 million.

WST is part of the Group's General Industrial division.