

## GOVERNANCE

## Directors and Company Secretary



**John W Newman (64)**  
Non-executive Chairman  
Chairman of the Nominations and Corporate  
Governance Committees

Appointed to the Board in 1986. Became Non-executive Chairman on 1 September 2009, having previously served as Executive Chairman. A Chartered Accountant who is also Chairman of the Newship group of companies.



**Geraint Anderson (50)**  
Group Chief Executive  
Chairman of the Corporate and Social  
Responsibility and Risk Committees

Appointed to the Board in 2008. Previously Vice President and General Manager of the Worldwide Service Provider Organisation for Linksys, a division of Cisco Systems, Inc.



**Shatish D Dasani ACA (48)**  
Group Finance Director  
Member of the Corporate Governance and  
Risk Committees

Appointed to the Board in 2008. A Chartered Accountant, previously with De La Rue plc, Lafarge SA and Blue Circle Industries plc. Was also previously a non-executive director of Camelot plc.



**Tim H Roberts (39)**  
Group Business Development Director

Appointed to the Board on 26 January 2010. Joined TT electronics in January 2008. Previously Strategy and Business Development Director with Spirent Communications plc and formerly a solicitor specialising in corporate finance.



**David S Crowther (64)**  
Senior Independent Non-executive Director  
Chairman of the Audit and Remuneration  
Committees and member of the Nominations  
Committee

Appointed to the Board in 2005. A Chartered Accountant who was a senior partner with PricewaterhouseCoopers LLP. Member of the Professional Oversight Board, a part of the Financial Reporting Council, and a non-executive Board Member and chairman of the Audit Committee of the Treasury Solicitor's Department.



**John C Shakeshaft (55)**  
Independent Non-executive Director  
Member of the Audit, Remuneration, Nominations  
and Corporate Governance Committees

Appointed to the Board in 2007. Currently chairman of Ludgate Environmental Fund Limited and of Valiance Special Opportunities Fund of Funds and Co-Investment Fund; investment director, Corestone, AG and a director of Tele2 AB, Xebec Adsorption, Inc and TEB, NV. Also an external member of the Audit Committee of Cambridge University. Previously a corporate financier with ABN AMRO, Lazard and Barings.



**Sean M Watson (61)**  
Independent Non-executive Director  
Member of the Remuneration, Nominations and  
Corporate and Social Responsibility Committees

Appointed to the Board in 2007. A partner at CMS Cameron McKenna LLP and was a non-executive director of Informa plc from 2000 to 2009.



**Wendy J Sharp ACA (44)**  
Group Company Secretary  
Member of the Corporate Governance Committee

## 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.

## GOVERNANCE

## 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<br>Ordinary shares | 31 Dec 2009<br>Ordinary shares | 1 Jan 2009<br>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 <sup>(1)</sup> | 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 <sup>(2)</sup>  | 9,452,010  | 6.1  |
| Legal & General Group plc <sup>(1)</sup>   | 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.

## GOVERNANCE

## 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

## GOVERNANCE

## Directors' report on corporate governance

The Company is committed to achieving and maintaining high standards of corporate governance. The principles of good corporate governance set out in Section 1 of the 2008 Combined Code ("Code") contained in the Listing Rules of the Financial Services Authority, have been complied with throughout the year ended 31 December 2009 and this compliance has continued through to the date of this report. Details and explanations of the application of the principles of corporate governance are set out below.

**The Board**

Subject to the Company's Memorandum and Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The Board's main roles are to provide leadership to the management of the Group, determine the Group's strategy and ensure that the agreed strategy is implemented. The Board has also reserved certain specific matters to itself for decision. These include financial policy, acquisition and disposal policy, and the approval of major capital expenditure projects. The Board appoints its members and those of its Committees, and reviews recommendations of the Board committees and the financial performance and operation of each of the Group businesses. It regularly reviews the identification, evaluation and management of the principal risks faced by the Group and the effectiveness of the Group's system of internal control.

During 2009 the Board comprised up to three executive Directors and up to four non-executive Directors. J W Newman, the Chairman, served as an executive Director until 1 September 2009 when he became a non-executive Director.

Of the remaining executive Directors, S D Dasani and G Anderson served throughout the year. T H Roberts was appointed on 26 January 2010 and therefore did not serve during the year.

The remaining non-executive Directors, D S Crowther, J C Shakeshaft and S M Watson served throughout the year. D S Crowther is the senior non-executive Director.

S M Watson is a partner at CMS Cameron McKenna LLP, one of a number of law firms which advise the Company. Prior to his appointment as a non-executive Director, the Company, in consultation with Riskmetrics and major shareholders, undertook an assessment to ascertain whether S M Watson met the criteria for independence set out in the Code. It was concluded that he did as the value of the fees charged by CMS Cameron McKenna LLP to the Company, relative to each of their respective turnovers, was not significant enough to be considered material. This continues to be the position, the Company having paid CMS Cameron McKenna LLP circa £65,000 during 2009 in respect of legal advice.

Accordingly, of the non-executive Directors, D S Crowther, J C Shakeshaft and S M Watson are considered to be independent as defined by the Code.

During the year there were seven Board meetings on scheduled dates for which full notice was given. Unscheduled supplementary meetings also take place as and when required and, during 2009, two such meetings took place. The Board has had two scheduled and three unscheduled supplementary meetings to date during 2010. Full details of each Director's Board and Committee meeting attendance are given on page 40.

Directors' biographies including the Committees on which they serve and chair are shown on page 32. In accordance with the Company's Articles of Association each Director will offer himself for re-election every three years.

**The non-executive Chairman and Group Chief Executive**

Up until 31 August 2009, the Company had an executive Chairman and a Group Chief Executive. However, from 1 September 2009, in line with the announcement made on 21 January 2009, J W Newman became non-executive Chairman and, as a result, the division of responsibilities between the non-executive Chairman and the Group Chief Executive has been re-defined, formalised in writing and approved by the Board:

The non-executive Chairman maintains responsibility for the leadership and effectiveness of the Board and setting its agenda; ensuring that all Directors receive accurate, timely and clear information on financial, business and corporate matters to enable them to participate effectively in Board decisions; facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors; and ensuring effective communication with shareholders.

The Group Chief Executive is responsible for the operations of the Group. He is responsible for developing Group objectives and strategy having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders and, following presentation to, and approval by, the Board, for the successful implementation and achievement of those strategies and objectives. His other areas of responsibility include managing the Group's risk profile, including its health and safety performance; ensuring that the Group's businesses are managed in line with strategy and approved business plans, and comply with applicable legislation and Group policy; and ensuring effective communication with shareholders.

Under the provisions of the Code, the Chairman should on appointment be considered independent. However, J W Newman was appointed executive Chairman in 1995 before the Company was bound by any provision as to the independence of its Chairman.

**Board procedures and performance evaluation**

All Directors have access to the advice and services of the Group Company Secretary and are offered training to fulfil their role as Directors, both on appointment and at any subsequent time. There is an agreed procedure for any individual Director to take independent professional advice at the Company's expense if he considers it necessary.

In accordance with the provisions on conflicts of interest in the Companies Act 2006, the Company has put in place procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflict matters by the Board. In deciding whether to authorise a conflict or potential conflict the Directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation, may be reviewed at any time and, in accordance with best practice, a review of Directors' conflicts of interests is conducted annually.

## GOVERNANCE

## Directors' report on corporate governance (continued)

During the year the Board conducted an evaluation of its performance covering, among other matters:

- maintaining and improving its performance;
- developing the Group's strategy;
- maintaining the optimum mix of skills and knowledge among the Directors;
- ensuring robust and effective risk management; and
- considering full and timely information on financial and other performance.

In addition, each of the principal Committees carried out an assessment of its own performance during the year.

The performance of individual Directors is also reviewed annually and includes discussions between the Chairman and senior non-executive Director on their respective performance.

Following these detailed reviews it was considered that the Board and its Committees were performing satisfactorily, although it was noted that as the Audit Committee comprised just two members, and it was thus reliant on both members being available to be quorate, a third member would be an advantage. It is anticipated that this will be addressed during 2010.

**Review of principal risks and internal controls**

The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. These systems have been in place for the full financial year. The Group is committed to a policy of maintaining strict internal control over all of its activities. Controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are properly authorised, and that material errors and irregularities are prevented or, failing which, are discovered on a timely basis. The systems of control are reviewed regularly and improved where necessary to meet the Group's requirements. Business risk evaluation takes place at operating company and Group level as part of the annual budget preparation. Having identified risks, each operating company then monitors, reviews and updates them regularly.

The Group Chief Executive oversees maintenance of the Group's Register of Principal Risks. Members of staff who are involved in the Group's risk management function report directly to the Group Chief Executive at a monthly Risk Committee meeting. The principal risks of the Group are subject to review by the Risk Committee, Audit Committee and the Board. Further details of the Group's exposure to risk and processes in place to manage the same are set out in the Business review on pages 28 to 29.

The risk management procedures and systems of internal control are designed to identify and assess the significant risks which the Group faces and to manage them appropriately. However, such systems can only provide reasonable and not absolute protection against material mis-statement or loss.

**Principal features of the system of internal control**

- The Directors meet as a Board at least every other month to monitor financial performance, give direction on significant strategic and financial issues and review the principal risks of the Group.
- The Group Chief Executive chairs a Committee ("Operating Board") consisting of the executive Directors, Divisional Chief Executives and other senior management. The Operating Board meets on a monthly basis and reviews the historical performance and the outlook for the Group as a whole and agrees and implements any actions as necessary. In addition, it is responsible for monitoring and driving delivery of the Group's key priorities and acts as a forum to raise and debate significant operational issues.
- The Group Chief Executive also chairs the Risk Committee which meets monthly. Further details on the remit and activities of the Risk Committee are set out on page 41.
- Each operating company within the Group operates within the policies, rules and procedures determined by the Directors and communicated through a Group manual. The Directors exercise control over operating companies through divisional senior executives who monitor and oversee the activities, financial performance and controls of each operating company. The directors of operating companies are held accountable for the effectiveness of the implementation and maintenance of controls within their companies. This provides constant and consistent management.
- The Group has detailed financial planning and reporting systems. Detailed management accounts are prepared monthly by each operating company comparing actual performance with budget. The financial performance of each operating company is subjected to detailed formal review at monthly meetings. One purpose of these reviews is the early identification of potential business risks and agreement on suitable and prompt courses of action. Operating companies prepare strategic plans and annual budgets which are reviewed and approved by the divisional senior executives, Group management and the Board.
- The Group has comprehensive control and approval procedures which are rigorously enforced. There are clear definitions of appropriate authorisation levels. Capital investment and other major items of expenditure are made only after compliance with detailed appraisal procedures and, if above set levels, only with the approval of the executive Directors.
- Accounting and reporting policies and practices require that the Group's accounting records are prepared consistently, accurately and in compliance with Group policy and relevant accounting standards.
- The framework for maintaining control and the adherence to procedures is reviewed by the Group Internal Controls Executive, who reports to the Group Finance Director and to the Audit Committee.
- Certain key functions, including treasury, taxation, pensions, provision of legal advice, risk and insurance are controlled at the Group's head office and are monitored by the executive Directors.

The Directors have reviewed the effectiveness of the systems of risk management and internal control during the year to 31 December 2009 and during the period since then to the date of this report. They have made improvements where necessary.

### Board Committees

The Board has established a number of Committees, each with its own delegated authority defined in terms of reference. These terms are reviewed periodically and the Board receives reports and copies of minutes of Committee meetings. The Board appoints the chairmen of all principal Board Committees, having received the recommendations of the Nominations Committee.

The principal Committees and brief descriptions of their terms of reference (full details of which are available for inspection by shareholders at the Annual General Meeting and on the Group's website) and duties are as follows:

#### a) Audit Committee

During the year, the Audit Committee comprised two of the independent non-executive Directors: D S Crowther (Chairman) and J C Shakeshaft, the former having recent and relevant financial knowledge, as required by the Code. The Committee's duties include reviewing and advising the Board on:

- the integrity of the financial statements;
- the appointment and remuneration of external auditors;
- the effectiveness of the Auditors in line with the requirements of the Code;
- the nature and extent of non-audit services provided by the Auditors to ensure that their independence and objectivity are maintained;
- changes to accounting policies and procedures, decisions of judgement affecting financial reporting, compliance with accounting standards and with the Companies Act;
- the Auditors' assessment of internal audit and other internal controls;
- the scope, performance and effectiveness of the internal audit and other internal control functions;
- risk management (by reference to reports received regularly from the Risk Committee and the head of the internal control/audit function) and any changes to the Register of Principal Risks; and
- the Company's written procedures for responding to any allegations made by whistleblowers.

In order to fulfil its duties the Audit Committee regularly receives reports from the Risk Committee and on the findings of the Group Internal Controls Executive who is required to attend the Committee's meetings. The Committee also reviews internal audit plans and recommendations.

During 2009 the Audit Committee met five times and has had one meeting to date during 2010. Both committee members attended all the meetings. The Committee met twice with the Auditors without executives of the Company being present. The Committee also met twice with the head of the internal control function without executives of the Company being present.

The Committee reviewed the effectiveness of the external Auditors during the year. This process included seeking feedback from the finance directors of each operating subsidiary. Comments received were then analysed to identify both recurring themes and specific issues and the results were presented to the Committee. It was concluded that the Auditors' performance had been satisfactory and, where areas for improvement had been identified, these were communicated to the Auditors.

The independence of the Auditors is assessed annually by the Audit Committee. This is achieved by means of a self-assessment of independence which is completed by the Auditors and is then subject to review, analysis and query by the Audit Committee to ensure that suitable policies and procedures are in place to safeguard the Auditors' independence and objectivity. Such policies and procedures include the Company's policy regarding the provision of non-audit services which states that non-audit services may be obtained from the most appropriate source having regard to expertise, availability, knowledge and cost. Non-audit services where fees are expected to exceed a pre-determined threshold should be approved, in advance, by the Chairman of the Audit Committee or in his absence by another member of the Audit Committee. There is a restriction so that non-audit services fees will not exceed the audit service fees, paid to the same service provider, for more than two consecutive years unless specifically recommended by the Audit Committee and agreed by the Board. The preference of the Committee is not to engage the Auditors for additional non-assurance services, absent compelling reason (e.g. capability, time, cost) to the contrary.

The Committee also carried out a self assessment of its performance, based on a questionnaire completed by the members of the Committee.

#### b) Remuneration Committee

The Directors' remuneration report on pages 42 to 46 includes details of the Remuneration Committee and its work.

#### c) Nominations Committee

The Nominations Committee generally meets twice a year to make recommendations to the Board regarding the appointment of replacement or additional directors. It comprises the independent non-executive Directors and the non-executive Chairman, who also chairs the Committee. The Committee has an established procedure for recommending Board appointments and for the appointment of members to the Audit and Remuneration Committees. In 2009 the Committee met three times. All Committee members attended each meeting. The Committee also carried out an assessment of its performance in 2009.

## GOVERNANCE

## Directors' report on corporate governance (continued)

The Committee has had two meetings to date during 2010, following which the appointments of T H Roberts as an executive Director and S M Watson as Chairman were recommended to the Board.

T H Roberts had joined the Company in 2008, in advance of the retirement of J W Armstrong, who had previously held the post of Corporate Development Director. At the recommendation of the Nominations Committee, T H Roberts is receiving executive coaching which involves networking with other executive directors, governance training and coaching to address other identified development needs. This commenced in advance of his appointment as an executive Director.

S M Watson has been an independent non-executive Director of the Company since 2007. Before nominating him to become Chairman the Committee weighed the relative merits of appointing an internal candidate conversant with the agreed strategy and its current execution or an external candidate with different skills and experience from existing Board members. The Committee took external advice from the Company's bankers, brokers and remuneration consultants. Two members of the Board offered themselves as candidates. The Committee took soundings of all Board members and engaged recruitment consultants to interview both candidates against a set of professional competences (board leadership; influencing and collaboration; coaching and development; strategic acumen; independence and integrity; and industry and market knowledge) and also against a control group of possible external candidates. Both candidates measured well on both sets of criteria and stronger than the external set on the particular requirements of the Company. Reviewing all the assessments the Committee recommended S M Watson's nomination.

**Board and Committee meeting attendance 2009**

The table below shows the number of meetings held by the Board and its principal committees and the attendance of each of the Directors at those meetings.

|                     | Board            | Audit Committee | Remuneration Committee | Nominations Committee |
|---------------------|------------------|-----------------|------------------------|-----------------------|
| Total meetings held | 9                | 5               | 7                      | 3                     |
| J W Newman          | 9                | n/a             | n/a                    | 3                     |
| G Anderson          | 9                | n/a             | n/a                    | n/a                   |
| S D Dasani          | 9                | n/a             | n/a                    | n/a                   |
| D S Crowther        | 8 <sup>(1)</sup> | 5               | 7                      | 3                     |
| J C Shakeshaft      | 9                | 5               | 7                      | 3                     |
| S M Watson          | 8 <sup>(1)</sup> | n/a             | 7                      | 3                     |

(1) D S Crowther and S M Watson were each unable to attend one unscheduled supplementary board meeting.

J W Armstrong retired on 5 January 2009. However, given that no Board or Committee meetings took place during the period 1 to 5 January 2009, he has not been included in the above table.

**Corporate Governance Committee**

The Corporate Governance Committee is responsible for monitoring the Group's compliance with good corporate governance. During the year it was chaired by the Chairman and included the Group Finance Director, one independent non-executive Director and the Group Company Secretary. The Committee's duties are as follows:

- to review regularly the corporate governance procedures of the Company;
- to ensure that the Company's corporate governance procedures are up-to-date and effective and that these are communicated to those employees, officers and/or Directors of the Company or its subsidiaries to whom they are relevant;
- to make recommendations to the Board from time to time on any procedures, or processes, that may need changing, in order to ensure that the Company is compliant with relevant legislation, including but not limited to, the Companies Act 2006;
- to ensure that the Company is compliant with the standards and disclosures required by the Combined Code and the Listing, Prospectus and Disclosure rules of the UK Financial Services Authority; and
- to receive reports, or any views expressed by shareholders, stakeholders, government or other regulatory bodies and any other interested parties in relation to corporate governance.

The Committee met three times during 2009.

### Corporate and Social Responsibility Committee

The Corporate and Social Responsibility Committee is chaired by the Group Chief Executive and also comprises one non-executive Director, the Group Legal Counsel, and up to three senior executives from within the Group. The Committee met four times during 2009 and has had one meeting to date during 2010. The Board regularly receives reports on its activities.

Further information on the activities of the Corporate and Social Responsibility Committee is given in the Corporate responsibility section of the Business review on page 30.

### Risk Committee

The Risk Committee assists the Board and the Audit Committee in fulfilling their responsibilities by:

- providing a framework for managing risks throughout the Group; and
- providing an appropriate level of reporting on the status of risk management within the Group.

This is achieved by promoting awareness of risk management, and ensuring that a risk management framework is in place to ensure that risks are identified, quantified, managed, monitored and reported.

During the year the Committee was chaired by the Group Chief Executive and included the Group Finance Director, the Group Legal Counsel, the Group Internal Controls Executive and up to four senior executives from within the Group. A representative from the Company's insurance brokers also regularly attends meetings. The Committee met 12 times during 2009 and has had three meetings to date in 2010.

Further information on the activities of the Risk Committee is given in the Principal Risks and Uncertainties section of the Business review on pages 28 to 29.

### Donations

During the year the Group contributed £53,000 (2008: £50,000) for charitable purposes. Employees across the Group regularly fund-raise for charity.

There were no political contributions.

### Communications with shareholders

G Anderson and S D Dasani meet institutional investors immediately after publication of the annual and interim results, as well as providing the information needed to maintain an orderly market in the Company's shares. D S Crowther, as senior independent non-executive Director, also undertakes consultation on certain matters with major shareholders. Through these Directors the Company maintains a regular dialogue with institutional shareholders and analysts and feedback received is reported to the Board so that all Directors develop an understanding of the views of major shareholders about the Company. Trading updates and press releases are issued as appropriate and the Company's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings. Information offered at the analysts' meetings together with our financial press releases are available on the Group's website. The Annual General Meeting is used by the Directors to communicate with both institutional and private investors.

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

### W J Sharp

Group Company Secretary

## 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

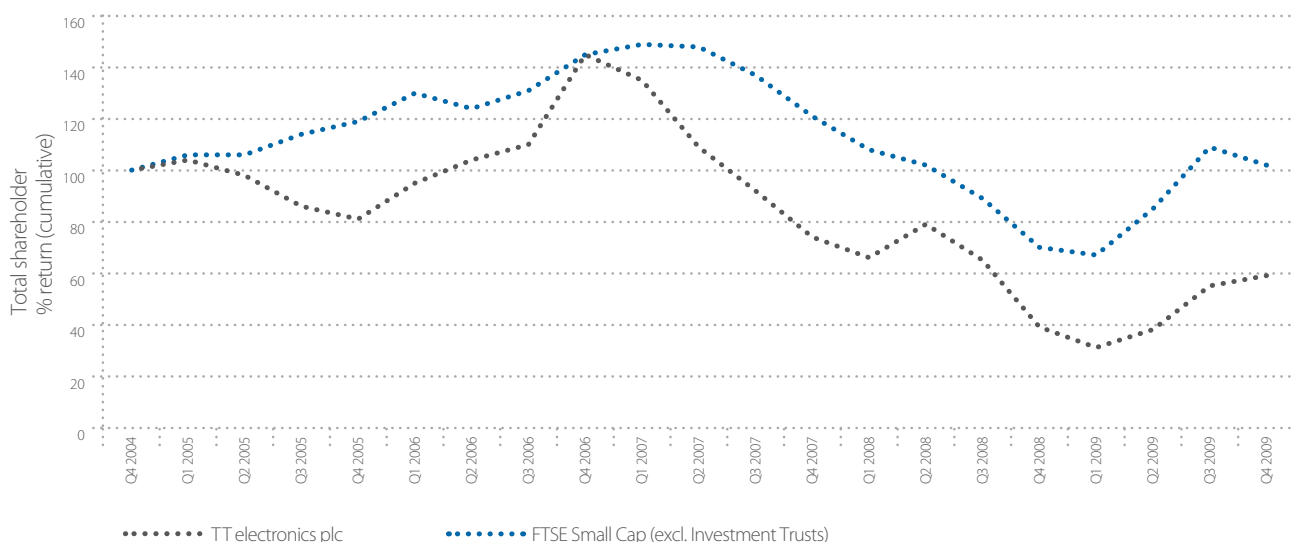
At its meeting in early March 2009, reflecting investor pronouncements with respect to reducing award levels where a company's share price has fallen, the Committee resolved to grant LTIP awards over 875,000 and 600,000 shares to the Group Chief Executive and Group Finance Director respectively. This 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.



## GOVERNANCE

## 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<br>£000 | Annual<br>Bonus <sup>(4)</sup><br>£000 | Other<br>£000 | Benefits<br>£000 | 2009<br>Total<br>£000 | 2008<br>Total<br>£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/<br>(decrease) in<br>accrued<br>pension<br>£000 | Accrued<br>pension at<br>31 December<br>2009<br>£000 | Lump sum<br>received<br>during year<br>£000 | Value at<br>31 December<br>2009<br>£000 | (Decrease)/<br>increase<br>in value<br>£000 | Value at<br>31 December<br>2008<br>£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<br>2009 | Granted<br>during the<br>year | Lapsed  | Vested | 31 December<br>2009    | Market price<br>at grant date<br>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.

## GOVERNANCE

## 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<br>2009 | Lapsed  | 31 December<br>2009           | Exercise<br>price<br>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