

BUSINESS REVIEW

Delivering our strategy



Geraint Anderson
Group Chief Executive

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Overview of Group performance

Announced in January 2009, the results of our Strategic Review identified our core business as the design and development of highly engineered, bespoke electronic components for specialist growth markets, addressed by the Components and Sensors divisions. The IMS and Secure Power divisions were identified as representing scalable strategic opportunities, with the businesses within the General Industrial division to be "run for value". In addition, we set out an objective to increase the proportion of Group revenue from the industrial (including medical) and the defence and aerospace markets and to reduce reliance on the automotive market from 40 per cent of revenue in 2008 to a targeted range of 25 to 30 per cent in the medium term.

During 2009, significant time and resources were committed to restructuring the businesses and implementing the actions identified by the Strategic Review. The proportion of revenue from the defence and aerospace market increased to 13 per cent in 2009 (2008: 11 per cent) whilst the medical market increased to 3 per cent (2008: 2 per cent). Sales to the automotive market decreased from 40 per cent to 36 per cent.

We made good progress during the year in strengthening the senior management team and creating a structure to enable a clear focus on delivery and accountability. A number of initiatives have been implemented to improve the way we interface with customers, most notably within the Components division. In addition, we have introduced virtual market teams to drive growth in key areas. Further details are set out on page 9.

Market conditions

During the first half of the year, performance was affected by a significant reduction in demand from the automotive industry and to a lesser extent, from many industrial customers. This particularly impacted the Components, Sensors and General Industrial divisions. Whilst the reduced demand continued through the third quarter, there was some improvement towards the end of the year particularly in the automotive business, although this was partly due to government "scrappage" schemes. Following a robust end to 2008, IMS saw demand fall in early 2009 and continue at lower levels throughout the year as the global downturn impacted manufacturing. Whilst 2009 was a difficult year for the Secure Power division with a decrease in new orders for large projects, there was good activity in a number of markets and geographies including the petrochemical sector and in Latin America.

Revenue
£499.6m

09 499.6

08 584.3

Operating profit*
£6.5m

09 6.5

08 27.0

*before exceptional items

Operating profit margin
1.3%

09 1.3%

08 4.6%

Capital employed
£212.7m

09 212.7

08 326.1

Year end headcount
6,302

09 6,302

08 7,466

Operating cash flow*
£83.9m

09 83.9

08 50.1

*before exceptional items



Revenue

Group revenue reduced by 14.5 per cent to £499.6 million (2008: £584.3 million). However, the revenue figure benefited from foreign exchange movements of approximately £44 million. The underlying reduction in revenue was 22 per cent. Volumes deteriorated sharply in the first half of 2009, with underlying sales down by 29 per cent at the half year. The second half saw some relative improvement, particularly in the final months of 2009.

For the full year, underlying revenue in the Components division was down 11.7 per cent. The Sensors division saw some stabilisation of activity in the last quarter but overall revenues were down by 25.3 per cent. Revenue in the IMS division was down by 35.9 per cent on an underlying basis and in Secure Power by 9.0 per cent. The performance of the General Industrial division was distorted by the AB Automotive climate control business which was run to closure in 2009. The other businesses in the division saw an underlying reduction in revenue of 11.7 per cent. All figures exclude foreign exchange variations.

Operating profits (before exceptional items)

Operating profit was severely affected by the reduction in sales. Following a difficult first four months, the Group traded profitably from May onwards as cost reduction actions began to offset the drop in volumes. We achieved an operating profit of £7.1 million in the second half compared with a loss of £0.6 million in the first half, giving an overall result for the year of

£6.5 million (2008: £27.0 million). This includes the impact of the AB Automotive climate control business which gave rise to a loss of £2.9 million. Operating margins for all divisions, apart from IMS, improved in the second half. There was a small net benefit of £0.2 million from the impact of foreign exchange variations on the retranslation of operating profit.

Restructuring

The restructuring programme has been implemented extensively with a series of measures to reduce costs and improve performance. These included the closure of facilities and the consolidation of manufacturing activity, headcount reductions, short time working, a pay freeze and an extension to normal factory shut-downs. Much of the restructuring is now complete, with the remaining activity being implemented in the first few months of 2010.

As a result of the measures taken, it is estimated that costs will have been reduced by over £31 million on an annualised basis. Headcount reduced by 1,507 between June 2008 and December 2009, representing 19 per cent of the global workforce.

The cost of the restructuring in 2009 was £15.9 million, of which £14.2 million relates to major programmes or plant closures and is treated as an exceptional cost. The balance of £1.7 million has been charged to operating profits.

£499.6m

Group revenue

£6.5m

Operating profit

	Costs		Benefits – annualised cost reduction £m
	2009 £m	2008 £m	
AB Automotive – Climate control exit	3.2	2.7	4.0
Sensors – European restructuring	7.4	–	8.2
Sensors – Romford closure	0.4	1.1	1.6
IMS – UK consolidation	1.2	–	1.9
BI SMT – closure of manufacturing	1.0	–	0.8
General Industrial restructuring	1.4	–	0.9
Other restructuring	0.6	–	0.3
Profit on sale of properties	(1.0)	–	–
Total exceptional	14.2	3.8	17.7
Operating	1.7	2.1	13.6
Total	15.9	5.9	31.3

BUSINESS REVIEW

Components



“This is a very exciting time to join the management team. The actions completed in 2009, and those currently in progress, provide the Components division with a great platform to deliver differentiated technical solutions to our global customers in our target markets.”

Billal Hammoud
Divisional Chief Executive –
Components

The focus of the Components division is on delivering highly engineered components, including products which are custom designed for specific applications by the division’s global network of application sales engineers, who support customers’ own design centres. The business has strong market positions in a number of product segments including fixed and variable resistors as well as military connectors and harnesses. It is continuing to invest in new product development in growth segments such as visible optical and power semiconductors.

The division benefits from a global footprint with facilities in North America, Mexico, Europe and Asia, and with a sales presence in all major markets.

Historically, each of the division’s businesses had their own sales teams and routes to market. Following the Strategic Review, it was determined that a single unified sales force in each of Europe, Asia and the US, would deliver significant benefits. The new sales structure for Europe was implemented with effect from 1 July 2009 in order to improve the way in which all of the division’s businesses address the European market. New sales structures in the US and Asia were launched on 1 January 2010. The key account management programme launched in 2009 has now been extended to 14 of the Group’s top accounts. It has been well received by customers leading to the development of higher level partnerships. For example, the Group has recently been granted “key supplier” status by Schneider Electric.

Market conditions

The division operates across a number of end markets including defence and aerospace, industrial and automotive. Key growth drivers are the increased use of complex control electronics in applications where high reliability is vital, the need for electronics to operate in harsh environments and the increased circuit speeds required by modern electronic solutions.

Demand in most market segments was significantly impacted in the first half of the year by the global recession. Whilst there was some increase in demand towards the end of the year, we remain cautious that this was primarily due to a re-stocking of the supply chain as opposed to a material increase in end market demand.

Performance

Underlying revenue was down by 11.7 per cent after adjusting for foreign exchange movements. Gross margins held up across most businesses but there was a decline in operating profit due to the significant reduction in volumes which was offset to some extent by cost reductions. Redundancy costs of £1.3 million were charged to operating profits in the year and there was a headcount reduction of 293.

Outlook

The increase in orders in the final quarter of 2009 has continued into the first quarter of 2010 with improved visibility for the first half of the year. We will continue to improve the way in which we serve our customers and expect to see increasing benefits from the unified sales structures now in place in Europe, USA and Asia.

Revenue **£190.8m**
Operating profit **£5.9m**

Revenue	Operating profit*	Operating profit margin
£190.8m	£5.9m	3.1%
09 190.8	09 5.9	09 3.1%
08 192.1	08 9.7	08 5.0%
*before exceptional items		
Capital employed	Year end headcount	
£148.8m	3,113	
09 148.8	09 3,113	
08 188.5	08 3,406	

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Sensors

Historically, the Sensors division has focused on providing highly engineered sensors for specific automotive and industrial applications, particularly with major German automotive OEMs. The business has strong market positions in speed, direction and position sensing, especially in chassis, powertrain and transmission applications, and is developing an emerging position in high temperature, gas, fluid quality and low pressure sensing. The division is now focused on growing its business in system critical automotive applications, the broader transportation market and selective high accuracy industrial sensors segments whilst also consolidating its presence in emerging markets.

Principal operations are based in Germany with further sites in the UK, Eastern Europe, China and India.

As part of the fundamental realignment of the division's cost base, a major restructuring programme was implemented in Germany, resulting in a headcount reduction of over 250 during the year. The cost arising from this of £74 million has been charged as an exceptional item and annualised savings of £8.2 million are projected from these actions. The closure of the AB Electronic facility at Romford was completed on schedule with the majority of manufacturing transferred to existing low-cost facilities in India and China. These actions meant that the division traded profitably from June 2009.

Operations in China and India made significant progress in 2009 with support from our German operations, with several strategic orders secured from targeted indigenous OEMs in each region.

Revenue **£105.4m**
Operating loss **£(3.9)m**

Market conditions

Sensor usage on vehicles is growing, due to tighter legislation relating to vehicle emissions and safety. In Europe, Euro 5, which brought a step change in standards, came into force in 2009 and similar standards are being rolled out globally. In response, OEMs are striving to improve engine efficiency and meet the legislation whilst remaining competitive.

Notwithstanding a steady increase in sensors on each platform, demand from automotive manufacturers in the US and in Europe experienced a sharp reduction in the fourth quarter of 2008 as all major OEMs reduced their manufacturing output. This continued throughout 2009 as many customers implemented short time working and extended factory close-downs. The premium end of the passenger car market was impacted the most, with smaller cars seeing some benefit from the scrappage schemes implemented in the US and Europe in the second half of the year. In addition, truck volumes also reduced significantly.

Performance

Underlying revenue in 2009, excluding the effect of foreign exchange, fell by 25.3 per cent due to the significant reduction in automotive demand. Although this was partly mitigated by cost reductions, operating profit before exceptional items reduced sharply to a loss of £3.9 million.

Outlook

Whilst there has been some improvement in demand in recent months, we do not expect to see a material improvement in overall passenger car or truck volumes amongst our European customers during 2010. Instead, any revenue growth is expected to be delivered by new automotive programmes moving into volume production. This will be augmented by our progress in developing automotive business in India and China and by a further move into new industrial and broader transportation markets.



“We took significant steps during 2009 to adjust the division’s cost base leaving us well positioned to benefit from any recovery in demand in 2010. In addition to better serving our traditional customers, we are actively pursuing new business in China and India and looking at ways to exploit our technical expertise in the broader transportation and industrial markets over the medium term.”

Pat Murray
Divisional Chief Executive –
Sensors

Revenue	Operating loss*	Operating profit margin
£105.4m	£(3.9)m	(3.7)%
09 105.4	09 (3.9)	09 (3.7)%
08 125.9	08 1.1	08 0.9%
*before exceptional items		
Capital employed	Year end headcount	
£55.7m	989	
09 55.7	09 989	
08 73.5	08 1,284	

BUSINESS REVIEW

IMS



“The outsourced manufacturing market suffered from a significant drop in demand in 2009 as a result of the global downturn. Whilst we see some signs of stability returning, we remain cautious about the coming year and will continue to focus on the actions we have put in place to better serve our customers and win new business.”

John Molloy
Divisional Chief Executive –
IMS

With operations in the UK, USA, China and Malaysia, the division specialises in providing high quality electronic manufacturing support for customers in the defence and aerospace, telecom and premium industrial sectors. The division has a broad capability from board assembly to full systems integration, design for manufacturing and logistics support, focused on higher mix/lower volume business. It has a substantial design engineering team and supports an international purchasing office in China.

A unified strategy was implemented across all businesses, targeting customers that require more specialised integrated assembly in certain markets. In line with this strategy, all businesses within the division attained new quality awards during 2009, with the facility in China becoming the first electronic manufacturing services provider in the country to obtain the “IRIS” international rail standard. The global footprint of the IMS operations is a key strength that is increasingly valued by customers. A global sales structure is now in place to allow the division to better meet the needs of customers across multiple geographies. In the UK we have announced the closure of the Aylesbury plant. This is on track for completion by the end of March 2010 and the transfer of business to our Rogerstone facility is substantially complete.

Market conditions

Following a robust end to 2008, the division experienced a significant reduction in demand in early 2009 as the global downturn impacted manufacturing volumes worldwide. The lower levels of demand persisted throughout the year with many customers reducing commitments and re-scheduling deliveries. The move towards greater use of outsourcing by medical and industrial manufacturers seeking to reduce fixed costs continued during the year, albeit at reduced levels.

Performance

Underlying revenue was down by 35.9 per cent after adjusting for foreign exchange movements. The significant reduction in volumes resulted in a decline in operating profit to £2.4 million and there was a headcount reduction of 179 during the year.

Outlook

We are seeing some improvement in demand in China and the US as we move into 2010. This is being accompanied by some tightening in the labour market and a shortage of certain components in China. Although there still remains significant uncertainty, customers are beginning to provide more visibility in terms of forward demand.

Revenue **£75.1m**
Operating profit **£2.4m**

Revenue	Operating profit*	Operating profit margin
£75.1m	£2.4m	3.2%
09 75.1	09 2.4	09 3.2%
08 103.4	08 6.0	08 5.8%
*before exceptional items		
Capital employed	Year end headcount	
£19.9m	1,011	
09 19.9	09 1,011	
08 34.7	08 1,190	

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Secure Power

The division has two principal operations: Ottomotores in Mexico and Dale Power Solutions in the UK. Both companies provide secure power solutions for customers' critical power needs in selected markets worldwide.

Ottomotores manufactures generator sets and distributes uninterruptible power supplies (UPS) within Mexico and key markets in the Middle East and Latin America. Dale Power Solutions provides a similar product line within the UK and certain overseas markets. It has a particular focus on delivering bespoke power solutions to customers with mission critical power requirements, including utilities and companies in the petrochemical, financial services and healthcare sectors.

The Secure Power division has taken steps to increase export business with further development of its distribution network in Latin America, coupled with new sales and service offices opened in the Middle East during the latter part of 2009 and in Brazil in January 2010. The generator set and UPS product ranges have also been improved and extended.

As part of the strategic development of the Secure Power service business, a facility was opened in Aberdeen to support the Group's growing offshore oil and gas maintenance customer and contract base in the region. This facility has already proved valuable in supporting a three-year agreement with Total E&P UK Ltd to provide service and maintenance, which was secured during the year. In addition, four regional support centres were established in Mexico to enhance customer service and improve the capture and retention of service business.

Market conditions

2009 was a difficult year for the global secure power market with a reduction in new orders for large projects linked to construction, financial services and tourism, particularly in the UK and Middle East. The division was able to offset some of this market weakness through its focus on the petrochemical sector and increased market penetration in Latin America, notably Brazil.

Performance

The division delivered a solid performance in 2009 in difficult market conditions. Revenue was down 9.0 per cent after adjusting for foreign exchange movements. Operating profit reduced by £3 million due to lower revenues. In addition, 2008 operating profit for the Mexican business benefited from a foreign exchange gain, which arose from a strengthening of the US dollar. The successful completion of a gas turbine refurbishment project in Kazakhstan, coupled with the ongoing supply of secure power systems to a number of UK hospitals, helped underpin performance. The Mexican operation benefited from new contracts in the domestic oil exploration and power utilities sector.

Outlook

Developed markets are expected to remain challenging during 2010 although there has been an increase in activity for larger secure power projects since the beginning of the year. There is ongoing demand in developing economies, particularly in Latin America, as demand for power continues to outstrip investment in generation and distribution infrastructure. Demand from the Middle East remains subdued.



“During 2009 we implemented a number of steps to better serve new markets and customers including opening a new service office in Aberdeen, broadening and enhancing our product range and establishing a presence in Brazil. Whilst we expect the market to remain difficult in 2010, I believe that these actions position the division well for continued future growth.”

Revenue **£59.1m**
Operating profit **£4.8m**

Revenue	Operating profit*	Operating profit margin
£59.1m	£4.8m	8.1%
09 59.1	09 4.8	09 8.1%
08 65.9	08 7.8	08 11.8%
*before exceptional items		
Capital employed	Year end headcount	
£11.6m	589	
09 11.6	09 589	
08 18.4	08 629	

Nigel Brice
Divisional Chief Executive –
Secure Power

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General Industrial



“Despite difficult trading conditions during 2009, the General Industrial division, with the exception of AB Automotive, generated cash and profit in the second half of the year. The actions taken to reduce costs and develop sales position the division well for the coming year.”

Andrew Dick
Divisional Chief Executive –
General Industrial

With operations in the UK, South Africa, India, China, USA and Canada, the division serves a range of market sectors. Applications include magnetics, electrical fusegear, specialist compounds for the cable and pipe markets and fastenings for the industrial and automotive sectors. General Industrial also incorporated the AB Automotive climate control business, which was closed during 2009.

A new Divisional Chief Executive was appointed in April to manage the businesses for value. In 2009, the Group invested in the relocation of AEI Compounds to a new facility and in additional capacity to meet the increasing demand for specialist low smoke and fume compound for the cable market. The relocation of further manufacturing from the WT Henley facility in the UK to the Group's site in China was announced in November and is on track to be completed by the end of March 2010.

During 2009, the sales of two small businesses in Scotland and Australia were completed. In addition, the conditional sale of Wire Systems Technology (Pty) Ltd, based in South Africa, was announced on 17 February 2010.

Market conditions

The businesses within General Industrial serve a wide range of end markets all of which were impacted by the global recession during 2009. In general terms, there was a significant decline in the first half of the year with some signs of stability in the fourth quarter.

Performance

Revenue for the division reduced by 32.1 per cent on a constant currency basis with a £5.1 million reduction in operating profit. The financial performance was impacted by the exit from the AB Automotive climate control business which was completed by the end of 2009 and which gave rise to an operating loss of £2.9 million for the year, and by the sales of two small businesses during the year. Revenue for continuing businesses reduced by 11.7 per cent to £53.2 million with an operating profit in 2009 of £0.2 million (2008: £4.9 million). £0.3 million of restructuring costs were charged to operating profit during the year.

Outlook

Following a steep decline in demand, particularly in the first half of 2009, there have been signs of stability in the first quarter of 2010 with volumes reflecting a reversal of some of the de-stocking which took place in the first half of last year.

Revenue **£69.2m**
Operating loss **£(2.7)m**

Revenue	Operating loss*	Operating profit margin
£69.2m	£(2.7)m	(3.9)%
09 69.2	09 (2.7)	09 (3.9)%
08 97.0	08 2.4	08 2.5%
*before exceptional items		
Capital employed	Year end headcount	
£23.2m	556	
09 23.2	09 556	
08 35.8	08 911	



BUSINESS REVIEW

Financial review

Overview

Operating profit for the year reduced to £6.5 million (2008: £27.0 million) due to the impact of the global economic slowdown, offset to some extent by the cost reductions arising from the implementation of the restructuring programme. Profit before tax and exceptional items was £0.8 million (2008: £21.1 million).

Exceptional items

Exceptional costs of £18.0 million were incurred in the year (2008: £3.8 million). This comprised £14.2 million in respect of restructuring described on page 21 and £3.8 million on impairment of goodwill in respect of Optek Technology, Inc. The impairment has been made following a review of the future cash flows of the business compared with the carrying value of goodwill and other assets.

Taxation

The tax charge for the year was £2.4 million, after a £0.4 million credit relating to exceptional items. The charge arises from profits generated in overseas countries, particularly Mexico and China. There was no tax payable in the UK due to current year losses.

Dividends and earnings per share

Headline loss per share was 1.3 pence compared with earnings of 9.2 pence in 2008. Basic loss per share was 12.6 pence (2008: earnings of 7.5 pence).

As announced in January 2009, the Board has set a dividend policy to maintain cover of at least two times underlying earnings per share.

For the year ending 31 December 2009, the Board has not recommended a final dividend (2008: nil) and no interim dividend was paid (2008: 3.69 pence).

Cash flow, borrowings and facilities

	2009 £million	2008 £million
Underlying operating cash flow	83.9	50.1
Capital expenditure	9.4	21.9
Development expenditure	6.9	10.9
Exceptional restructuring costs	9.6	1.7
Net debt	56.9	113.2
Stock turn (times)	5.0	4.1
Debtor days	48	58
Creditor days	57	50

Underlying operating cash flow of £83.9 million was £33.8 million higher than 2008 due mainly to the significant reduction in working capital which offset reduced profits. The working capital improvement of £47.2 million represented a significant out-performance on the upgraded target reduction of £17-20 million. This achievement was driven by actions undertaken at all business units to improve material flows across the factory, deliver supply chain efficiencies and agree improved terms with customers and suppliers. Inventory reduced by £31.1 million accompanied by an improvement in stock turns from 4.1 to 5.0 times. There was also an improvement in debtor days and creditor days as shown above with a £22.2 million reduction in debtors offset in part by a £6.1 million reduction in creditors.

Capital expenditure was £9.4 million compared with depreciation of £24.1 million. New approval processes have been introduced to ensure that expenditure is focused on key projects with an attractive return and that post-implementation reviews are undertaken for major projects to compare the benefits attained with previous projections.

Exceptional restructuring cash costs were £9.6 million (2008: £1.7 million) arising from the implementation of the cost-reduction programmes described previously.

Net cash flow for the year was £51.4 million (2008: £16.1 million negative) and this, together with the favourable £4.9 million exchange variance, led to a near halving of the net debt to £56.9 million (December 2008: £113.2 million).

The Group has total banking facilities available of £131 million, of which £32 million comprises working capital facilities with a number of major UK and overseas banks. This amount is periodically reviewed. The main term loan of £70 million is a multi-currency revolving facility with HSBC extending to 2011.

The main financial covenants are in the HSBC loan agreement and restrict gross debt to below three times total earnings before interest, tax, depreciation, amortisation and exceptional items ("EBITDA before exceptionals"). In addition, EBITDA before exceptionals is required to cover gross interest by at least six times. The covenants are tested annually and were satisfied comfortably at December 2009:

	Term	Actual
Gross debt / EBITDA before exceptionals	< 3	1.9
EBITDA before exceptionals / gross interest	> 6	11.8

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 for the foreseeable future.

Pensions

The Group operates both defined benefit and defined contribution schemes in the UK. Assets and liabilities of the defined benefit schemes are summarised below:

	December 2009 £million	December 2008 £million
Fair value of assets	302.9	279.0
Liabilities	(343.6)	(294.1)
Deficit – UK scheme	(40.7)	(15.1)
Overseas schemes	(3.0)	(3.5)
Total Group deficit	(43.7)	(18.6)

The increase in the deficit during the year was due to the reduction in the discount rate, offset in part by higher asset values.

The defined benefit schemes have been closed to new entrants for a number of years and, following consultations with members, a decision has been taken to close the UK scheme to future accrual and to transfer members to a defined contribution scheme. This was implemented for the USA scheme during 2009.

A revised funding agreement was agreed with the Trustee in January 2009, fixing deficit contributions out to 2016. Under the agreement, a contribution of £2.2 million was made into the scheme in 2009 (2008: £2.2 million).

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Principal risks and uncertainties

The Group is subject to a variety of risks which could have a negative impact on its performance and financial position. The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. The principal risks are considered to be:

Principal risks	Description of risk	How we mitigate that risk
Market and customer related	General economic downturn leading to reduction in customer demand and production volumes	Forward-looking indicators are regularly reviewed to identify deteriorating market conditions. The cost base is reduced as required and there is a management structure in place to enable a rapid response to changing circumstances
	Significant erosion of existing customer base as a result of customer relocation or a reduction in end user demand for their products	We review key customers as part of the annual strategic planning process and establish and monitor plans to diversify the customer base. A key account management programme ensures major customers are serviced on a global basis. We continue to increase our capabilities to service customers in emerging markets
	Over-dependence on one or more key market sectors	Market concentration is reviewed annually at a business, divisional and Group level as part of the annual strategic planning process. Plans are established to address any issues identified
	Major customer default giving rise to bad debts and/or unsold inventory	Customer credit limits are regularly reviewed and the ageing of receivables is reported monthly. Major new customers are credit checked and, where appropriate, payments are secured in advance of shipping
Manufacturing and operational	Major product liability claim or recall costs from quality failure, particularly in the automotive sector	Comprehensive quality control procedures are backed up by an appropriate level of insurance. Major contracts are reviewed by the Group Legal Counsel
	Failure of business continuity plans with consequential impact on revenue and profit	Robust business continuity plans in place at each business and tested periodically
	Inadequate succession planning, combined with a lack of training and development, resulting in a lack of management talent	A talent review process is held twice a year to assess senior management across the Group, identify succession issues and determine training and development needs. In addition, we are now able to identify, assess and monitor the development of the Group's management using a web-based performance management tool introduced in the final quarter of 2009
	Damage to reputation amongst key stakeholders due to product quality or product delivery issues	Comprehensive quality control procedures are in place and we continuously work to build and maintain relationships with all key stakeholders
Financial	Liquidity, foreign exchange and interest risk	Financial risks are managed at a Group level as further described below

Risk management process

In common with other international businesses, the Group is exposed to a number of potential risks which may have a material effect on its reputation and financial or operational performance including product liability, credit risk, reliance on customers' commitments and other usual commercial risks. We have a wide portfolio of products and operate in a number of market sectors. It is not possible to identify or anticipate every risk that may affect us, or the materiality of that risk. However, there are established control procedures in place to manage such risks, including production quality control, management and financial control procedures and insurance with reliable insurers, which are considered appropriate to the risk involved and the marketplace in which the exposure arises. The Board has overall responsibility for risk management and internal controls, supported by the Risk Committee and the Audit Committee.

The Risk Committee of the Board holds monthly meetings to review risks and assess and monitor actions to mitigate those risks. This provides a framework for managing risks throughout the Group. 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. Business risk evaluation including the nature, likelihood and materiality of the risks affecting each Group business is assessed by operational management on a monthly basis during the year and a Principal Risk Register maintained for each business. On the basis of these assessments, the Risk Committee produces a Group Risk Register and a Group Risk Map. Minutes of the Risk Committee meetings, together with the Group Risk Register and Risk Map, are circulated to the Board and to the Audit Committee.

The Risk Committee monitors the effectiveness of risk management with the assistance of the Group Internal Controls Executive who conducts a series of internal audits in line with an annual plan approved by the Audit Committee. After each site visit, a report is prepared and presented to local entity and divisional management and to the Chairman of the Audit Committee. A copy is also made available to the external auditors. Further details of the Group's system of internal controls are contained in the Directors' report on corporate governance on pages 37 to 41.

As described in the Corporate governance report, there is an embedded process for monitoring and managing risks through monthly financial and operational reporting procedures. In addition, appropriate levels of cover are maintained under the Group insurance programme in respect of insurable risks.

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. It should be recognised that such systems can only provide reasonable and not absolute protection against risk, material misstatement or loss.

Operational risks

The ongoing effects of the global financial crisis continue to present significant challenges to the Group, principally related to the level of demand.

The Group directly and indirectly serves large automotive OEM customers. This exposes the Group to several risks including fluctuating manufacturing volumes, the potential for significant quality and recall claims and customer default. In the event that one of the larger automotive manufacturers or suppliers defaults or seeks protection from its creditors, the Group may not recover all of the amounts owed to it.

In addition, the Group is exposed to risks of product liability, credit risk, supply chain issues, reliance on customers' commitments and other usual commercial risks in all of its businesses, including those identified as Principal Risks in the table opposite. The Group has a wide portfolio of products and operates in a number of market sectors.

There are established procedures in place to manage such risks, including production quality control procedures and insurance with reliable insurers, which have been put in place taking into account the risk involved and the marketplace in which the exposure arises. In addition, major contracts are reviewed by the Group Legal Counsel.

The Group has contractual and other arrangements with numerous third parties in support of its business activities. This report does not contain information about any of these third parties as none of the arrangements with them are considered essential to the business of the Group.

Financial risks

As an international business, the major financial risks faced by the Group are liquidity risk, currency risk and interest rate risk and these are regularly reviewed by the Board.

Liquidity

The current economic conditions continue to create uncertainty regarding the availability of bank financing and consequently there is a risk that the Group may have insufficient resources to meet its financial liabilities as they fall due. The Group addresses this risk by maintaining adequate banking facilities and by continuously monitoring forecast and actual cash flows to ensure that bank covenants and liquidity requirements will be met. The Group regularly discusses its requirements with its principal bankers and it is considered unlikely that the Group will face any significant funding issues in the foreseeable future.

Foreign currency

The Group's main foreign exchange exposures relate to the translation of profits and net assets denominated in overseas currencies into sterling and transactions in foreign currencies. The Group's policy is to use hedges to reduce these risks. These hedges are achieved through forward currency contracts and currency borrowings.

Interest cost

Interest cost risk is mitigated by the use of a combination of short and medium-term debt at both fixed and floating rates and by the use of interest rate caps where appropriate.

Directors' review

The Directors have reviewed the effectiveness of risk management and internal control during the year to 31 December 2009 and the period since then to the date of this report and have taken appropriate actions for improvement where necessary.

BUSINESS REVIEW

Corporate responsibility

We are an integral part of the lives of our people and the communities where we operate and we have a clear duty to operate responsibly.

Operating responsibly means a number of things for the Group. Whilst it means running our businesses in line with the expectations of diverse global stakeholders, Corporate Responsibility (CR) is also a discipline which helps manage risks, eliminate waste and maximise the opportunities presented by a changing world.

In 2009, we invested significant energy in CR, including a global audit of CR activity, engagement with industry bodies and the roll out of new Group values.

A commitment to CR

We use CR to manage issues such as measuring and improving performance on environmental impacts, health and safety and employee and community engagement.

The Group Chief Executive chairs the Corporate and Social Responsibility Committee which also includes an independent non-executive Director, the Group Legal Counsel and up to three senior executives from within the Group.

An audit of Group-wide activity in 2009 helped to benchmark existing activity and will be used to inform future actions.

Although we have not historically measured our performance against non-financial targets or indicators, this is something that will be implemented during 2010 as explained on page 10.

External standards and benchmarking

In 2009, the Group became a member of the Electronics Industry Citizenship Coalition (EICC). Membership mandates the adoption of EICC's code of conduct, which, in 2010 and beyond, will be embedded throughout our operating companies. This year also saw the Group become a member of Business in the Community.

Approximately half of the Group's operating companies have ISO9001 accreditation, with around 40 per cent holding ISO14001 accreditation. All operating companies are encouraged to gain accreditation to adopt these standards as a baseline for non-financial management.

Priority issues**People and culture**

A talented, engaged workforce is central to our ability to deliver world-class products. We focus on making TT electronics a place where people feel supported, can develop their skills and have a clear understanding of the Group's business objectives.

In 2009, we launched a set of Group values, which seek to define what the organisation stands for and to bring employees together under a clear common purpose. The values focus on themes such as integrity, excellence, innovation and teamwork. However, they also acknowledge our commitment to delivering customer value through the retention and development of high quality people.

Health and safety

Providing a workplace where our employees feel safe is not only a legal obligation, but a fundamental factor in building their engagement with the Group. We aim to reduce the frequency of accidents through management intervention, awareness campaigns and a culture that encourages employees to raise concerns about workplace safety.

Low-carbon technology

Our expertise in technological innovation ensures that we are well positioned to support the global transition to a low-carbon economy. Work to date has seen several businesses within the Group deliver solutions to increase energy efficiency or renewable energy production. For example, in 2009 we established a team to look at opportunities in electric and hybrid vehicles and we are already working with customers to increase the efficiency of the systems we design and build for them.

Environment

Above and beyond the commitment to ISO14001 already described, we are focused on efficiency and waste reduction together with reducing the use of potentially dangerous, volatile or environmentally damaging chemicals.

Community engagement

In 2009, the Group contributed £53,000 to charitable causes in addition to giving-in-kind through employee time.

We are immensely proud of the causes our employees support. During the year, these included blood donation services, substance abuse centres, medical research charities and children's charities. This work helps us to attract and retain talent, by engaging existing employees and building a local reputation as an employer of choice. In 2010, a more robust structure will be implemented around community engagement to ensure that it meets the needs of our business and continues to inspire our people.

BUSINESS REVIEW

Outlook for 2010

Following difficult trading conditions throughout most of 2009, the situation improved in the fourth quarter in most of our markets. This has continued in the first two months of 2010. A number of factors have contributed to an increase in demand, including government scrappage schemes in the automotive sector, the fiscal stimulus packages introduced in many countries and a re-stocking of the supply chain following the aggressive de-stocking that took place in late 2008 and the first half of 2009.

We continue to implement the actions outlined in this report, focusing the Group on those markets which we believe will provide opportunities for higher growth and margins. We are improving the way we interface with our customers through the implementation of unified regional sales teams in the Components division and maintaining our focus on the key account management programme, which is enabling us to better serve our major global customers.

In addition, the virtual market teams are highlighting growth opportunities offered by their target markets. With the strengthened senior management team now in place and new systems implemented to identify and develop our key employees, the Board is confident that the actions taken during 2009, and those in progress in 2010, will provide the Group with a platform for sustainable growth.

Although the shape and timing of the global economic recovery is difficult to predict, visibility for the first half of the year has improved in certain markets with the Group tracking slightly ahead of the Board's previous expectations.

Chairman

After more than 20 years with the Group, John Newman has announced his intention to step down from the Board at the next AGM. We would like to express our gratitude to John for his leadership and vision in developing TT electronics over many years and also for his support to us since joining the Group. The Board is delighted that Sean Watson, who has been a non-executive Director since 2007, will become non-executive Chairman following the next AGM, to be held in May.