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TT electronics plc

TT electronics is a world leader in sensor and electronic component technology and announces its results for the year ended 31 December 2008.

KEY POINTS

- Group revenue increased by 7.2% to £584.3m (2007: £544.9m) due to foreign exchange and acquisitions; on an underlying basis Group revenue was down 1.7% with rapid deterioration in the last quarter
- Profit before tax and exceptional items of £21.1m (2007: £33.3m), in line with October 2008 trading update
- Strong level of operating cash flow at £46.2m (2007: £42.9m)
- Sound financial position, continuing to trade comfortably within banking facilities
- New strategy announced in January being implemented: strategic focus on Components, with IMS and Secure Power representing scalable opportunities
- New operating structure to improve implementation, reduce costs and drive sales

Geraint Anderson, Group Chief Executive, said today:

“TT electronics’ core strengths lie in its global base and world class engineering skills and technologies serving a broad range of industries and markets. A comprehensive strategic review undertaken in the second half of 2008 identified the need to reduce the group’s cost base, to increase the focus on growth businesses and to decrease exposure to the automotive market. Since completing the review, market conditions have become even more challenging, with less visibility of market demand. While the traction, defence and aerospace markets are proving more resilient, we have experienced significant weakening in customer demand in our other major markets during the early part of 2009. Consequently, the restructuring action identified during the strategic review has been accelerated and further measures are being implemented.

In these testing economic conditions we continue to generate cash and maintain a strong balance sheet. The adjustments to our cost base will provide long term benefits and enhance performance as markets recover.”

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Chairman's statement

TT electronics' performance was noticeably affected by the global economic recession from mid-September. For the year, the Group's turnover was £584.3 million (2007: £544.9 million), with the increase due to foreign exchange and acquisitions, producing operating profit before exceptional items of £27.0 million compared with £37.7 million in 2007. Finance costs were £5.9 million net (2007: £4.4 million) which comprised £4.1 million of banking and finance interest (2007: £4.5 million) and £1.8 million relating to pension fund accounting (2007: £0.1 million credit). Profit before tax and exceptional items was £21.1 million compared to £33.3 million in 2007. The underlying taxation charge of £6.8 million (2007: £9.3 million) represents an underlying rate of 32 per cent (2007: 28 per cent). Exceptional items relating to the closures of the AB Automotive factory at Cardiff and the AB Electronic facility at Romford were £3.8 million. Headline earnings per share from continuing operations were 9.2 pence compared with 15.5 pence in 2007.

We welcomed Geraint Anderson and Shatish Dasani as Group Chief Executive and Group Finance Director respectively during the year and with them undertook a fundamental assessment of the Group's strategy. As we announced in the outcome of the review in January 2009, the Board has recognised the need to focus on improving margins and organic growth based on our strong underlying businesses, technologies and customers and to manage for value the non-core assets. During the year the Group acquired two companies supplying the aerospace and defence industries. In April 2008 we purchased New Chapel Electronics for an initial cash consideration of £4.2 million and deferred consideration capped at £1.0 million. New Chapel Electronics, based at Fairford, Gloucestershire, is a manufacturer of wiring harnesses and connectors for the aerospace and military industries. In August 2008 we acquired assets comprising the majority of the business of Semelab Limited for £9.7 million. The business, based in Lutterworth, Leicestershire, designs and produces specialised radio frequency and power modules, semiconductors, optoelectronic components and power microcircuits and modules.

During the year costs were incurred in reducing our climate control activities, and closing our facility in Romford, which are reported as exceptional items. We intend to cease manufacturing electronic systems for automotive climate control products as soon as possible. The Group also announced the closure of our sensor factory in Romford, with the majority of manufacturing transferred to facilities in China and India. The Group is reducing its exposure to the automotive sector progressively.

At 31 December 2008 the Group's net indebtedness was £113.2 million compared with £75.0 million at the previous year end. The borrowings were affected by the acquisition of Semelab and New Chapel Electronics, the fall in sterling against the US dollar and the euro, and the Group's payment of an additional £2.2 million into the pension scheme. The Group's indebtedness remains comfortably within the terms of its committed banking facilities. With our operations and net assets overseas, principally in the US, Europe and the Far East, the adverse movement in sterling has strengthened the balance sheet.

The time and effort of the pension scheme trustees, together with the benefits reaped from a change in investment strategy, has enabled the pension schemes to end the year with only a marginal additional deficit, despite the adverse movement in the stock market. The pension schemes are now 94 per cent funded on an IAS 19 basis (2007: 94 per cent).

As stated in the January announcement the Board has decided not to recommend the payment of a final dividend for this year. Therefore the dividend for the year is 3.69 pence, compared with 10.05 pence in the previous year.

My thanks to our employees worldwide for their continuing support and performance during these difficult times. We will work together to ensure the future success of TT electronics.

Within the strategic review the Group announced my intention to become the non-executive Chairman later this year. As reported in the Interim Report, Rod Weaver and David Crowe retired as Directors during 2008. In January 2009 Jimmy Armstrong retired as the Group's Corporate Development Director and I would like to thank him for his ten years as a Director of TT electronics and the wealth of knowledge he brought to the Board.

Despite the current difficulties of the market, the strengths of our worldwide activities will enable us to manage the business through this recession and give us the opportunity to come out of it as a stronger group.

John W Newman
Executive Chairman
13 March 2009

Business review

TT electronics is a technology-based group providing components, sensors, integrated manufacturing services and secure power solutions to a broad base of customers worldwide.

The Group carried out a strategic review of its business in the second half of the year, the results of which were announced on 21 January 2009.

The review, which encompassed all Group businesses and assessed their markets, product segments and competitive positions, confirmed that the business is underpinned by a blue chip global customer base, good products and technologies, and world class engineering skills. Furthermore, the Group has established market leadership within certain niche markets. At the same time, the review identified significant opportunities to improve performance and increase margins in order to maximise value for shareholders. To deliver these benefits, a number of key decisions have been taken:

- New operational and organisational structures have been implemented to enable the active management of the Group's businesses from a global perspective and bring greater focus in terms of execution. The new structures will also facilitate improved co-operation across businesses and divisions and the co-ordination of a global sales effort.
- There will be an increased focus on the Components division (which now includes the connector businesses), which the Board believes is capable of achieving good margins and growth to drive shareholder value.
- The Sensors business has been redefined and will focus on exploiting its core sensor expertise in a broader range of markets to contribute to an overall reduction in Group exposure to the automotive industry over the medium term.
- The Secure Power and Integrated Manufacturing Services businesses now form separate global divisions with dedicated divisional directors to ensure their growth potential is supported and realised.
- The remaining businesses which are unlikely to deliver a material increase in shareholder returns have been grouped together in the General Industrial division which will be run separately and managed for value.

As a result of the review, the Group's businesses have been re-organised into the following divisions with effect from 1 January 2009:

- Components
- Sensors
- Integrated Manufacturing Services ("IMS")
- Secure Power
- General Industrial

The primary focus of the Group is on the Components division and the delivery of highly engineered, bespoke electronic components for niche growth markets. The Sensors business, which is currently being re-structured, is expected to form part of the Components group in the future. The Group has set a target to reduce exposure to the automotive market from approximately 40 per cent of revenue in 2008 to between 25 per cent and 30 per cent in the medium term.

In addition, the Group will invest in its Integrated Manufacturing Services and Secure Power businesses which it believes can deliver material increases in shareholder value over the medium term.

A number of strategic actions for 2009 were outlined in January and we continue to make progress against these:

- In the Components division, we are implementing the re-organisation of the sales structure in Europe to allow us to better serve our customers. In addition, we have initiated a key account management program to make sure we work together across our businesses to support our major customers. The current restructuring of the UK Components facility in Bedlington is on track to be completed by the end of March with further headcount reductions made in February.

- Our US interconnection facility was awarded several contracts during 2008 to provide connectors for the US military totalling over \$90 million. We are making good progress towards achieving military approval certification for our new range of 38999 connectors.
- In the Sensors division, we are in the process of reducing the headcount at our German facility in Werne by approximately 225 as part of the fundamental realignment of the division's cost base which will result in an exceptional cost of up to £5.5 million spread over the remainder of the year. These actions are expected to save £5.0 million on an annualised basis. We are in a period of consultation which we expect to be completed with the reductions effective from early April. We are continuing the closure of the AB Electronic Romford facility and a further seven lines have been moved off-shore in 2009. We are on track to exit this site on or before 30 June. A new divisional director has been recruited.
- In the IMS division, headcount has been reduced by more than 100 so far in 2009 and additional actions are planned. We have completed the recruitment of a Global Sales Director to fill this newly created position. This individual will lead the development of the global sales structure and the IMS brand.
- The Secure Power division has appointed a new Service Director in the UK and opened two new service centres in Mexico as part of our plans to increase the capture and retention of service business.
- The recruitment of a divisional director for the General Industrial division is at an advanced stage.
- The closure of the AB Automotive climate control facility in Cardiff is on track to be completed in the first half of the year. We have continued to progress our withdrawal from this business globally.
- In the strategy review announcement in January we identified 1,295 positions to be eliminated in 2008 and 2009. More than 1,100 positions have been eliminated in 2008 and in the first two months of 2009 with approximately a further 225 underway in Germany. We are continuing to review our cost base in light of the deteriorating market conditions and we now expect total headcount reductions to be higher.

We assess business progress using a number of key performance indicators. Orders, revenue and cash balances are reviewed on a weekly basis. Every month we review these items, and a number of additional key financial metrics including profitability, working capital and cash flow conversion, against agreed budgets and targets. Progress against key strategic initiatives for each division is reviewed at regular management meetings and by the Board on a quarterly basis.

Revenue analysis under new structure

The analysis of revenue for the new divisional structure is presented below.

	2008	2007
	£million	£million
Components	192.1	176.3
Sensors	125.9	116.1
Integrated Manufacturing Services	103.4	92.2
Secure Power	65.9	59.9
General Industrial	97.0	100.4
	584.3	544.9

However, the commentary and the segmental analysis that follows and the financial statements are based upon the divisional structure that was in place throughout 2008.

The comparatives for revenue and operating profits are shown for continuing operations. There were no discontinued operations in 2008 but in 2007 the AEI Cables business was sold.

Overview of Group performance

	2008	2007
	£million	£million
Revenue		
Continuing operations		
Electronic components	145.2	131.2
Sensors and electronic systems	189.2	182.3
Electronic manufacturing services	103.4	92.2
Secure power and industrial	146.5	139.2
	584.3	544.9
Operating profit⁽¹⁾		
Continuing operations		
Electronic components	7.3	10.0
Sensors and electronic systems	0.8	10.0
Electronic manufacturing services	6.0	4.1
Secure power and industrial	12.9	13.6
	27.0	37.7
Profit before tax and exceptional items	21.1	33.3
Headline earnings per share	9.2p	15.5p
Cash generated from operations	46.2	42.9

(1) Throughout this review operating profit for 2008 is stated before exceptional items. There were no exceptional items in 2007.

Revenue for 2008 was £584.3 million compared with £544.9 million in 2007. The increase was mainly due to favourable exchange rate movements of approximately £39 million in relation to subsidiaries based in the USA and mainland Europe. The acquisition of New Chapel Electronics and Semelab during 2008 also contributed to top line growth. However, after adjusting for these factors, there was an underlying reduction in revenue of 1.7 per cent, with falls in the Electronic components and Sensors and electronic systems operations offset by good performances from Secure power and industrial and Electronic manufacturing services.

Operating profit for 2008 was down by £10.7 million at £27.0 million. This decline was the result of a downturn in volumes, especially in the automotive market, consequent pressure on margins and ongoing restructuring costs incurred to reduce the cost base in line with reduced activity levels. There was a marginal exchange rate benefit to operating profits, due to foreign exchange hedges taken out in accordance with Group policy.

Market conditions deteriorated progressively during the year with trading particularly difficult in the fourth quarter in our automotive markets where we saw significant declines in customer demand in both North America and Europe. In general, our other markets were more resilient but the effects of the credit crisis and global recession were felt in all of our businesses. Against this backdrop, we took steps to adjust the cost base of many of our businesses, including reducing our workforce and moving additional production to lower cost locations. We also announced the closure of two facilities in the UK serving the automotive market.

During the year we completed two acquisitions – New Chapel Electronics and Semelab. New Chapel Electronics, which is based in Fairford, Gloucestershire, manufactures wiring harnesses and connectors for the aerospace and defence industries and complements our international connection systems activities. The acquisition was completed in April 2008 for an initial cash consideration of £4.2 million and deferred consideration capped at £1.0 million. We completed the purchase of Lutterworth-based Semelab in August 2008 for £9.7 million. Semelab designs and produces specialised radio frequency and power semiconductors, optoelectronic components and power microcircuits and modules, primarily for the UK and European markets. Both acquisitions have performed well and clearly fit with our strategy of focusing on delivering niche component solutions to customers worldwide.

The strategic review has provided clarity in terms of the market areas which we believe represent the greatest opportunities for the Group to deliver revenue and profit growth. We will continue to invest in developing new products and technologies to address these opportunities.

Electronic components

	2008	2007
	£million	£million
Revenue	145.2	131.2
Operating profit	7.3	10.0
Capital employed	134.4	99.4
Return on capital employed	5%	10%
Number of employees	2,642	2,707

The focus of the Electronic components division is on delivering highly engineered, bespoke components. These are custom designed for specific customer applications by our global network of application sales engineers who support our customers' own design centres.

The components businesses already have strong market positions in a number of product segments including fixed and variable resistors, and the addition of Semelab's product range broadens TT electronics' offering considerably. The acquisition represents an excellent addition to our electronic component activities, and we will continue to invest in new product development in such growth segments as visible optical, power semiconductors and radio frequency semiconductors.

During 2008, operating profit in the division fell from £10.0 million to £7.3 million due to difficult trading conditions in all markets, especially the automotive market, and additional costs being incurred as new products came on stream.

During the year a number of steps were taken to adjust the cost base including moving four manufacturing lines off-shore from the UK and reducing headcount. Two new senior appointments were made during the year to lead the US operations and bring greater focus to the European sales structure, which is being reorganised to allow us to better serve our customers across a number of different Group companies.

The division's existing businesses, together with the Group's interconnection business (previously included in the Secure power and industrial division), have been reorganised from 1 January 2009 to form the new Components division. This division will continue to refine its product portfolio placing greater emphasis on niche solutions targeted at higher growth sectors, including the medical and defence markets.

Sensors and electronic systems

	2008	2007
	£million	£million
Revenue	189.2	182.3
Operating profit	0.8	10.0
Capital employed	127.8	105.1
Return on capital employed	1%	10%
Number of employees	2,216	2,429

This division consisted of two distinct areas of operation – automotive sensors and automotive electronic systems. Together they recorded a profit of £0.8 million in 2008 compared with a profit of £10.0 million in 2007, the reduction being due to a sharp decrease in volumes, particularly towards the end of the year, and a deterioration in margins.

Automotive sensor technologies include products to monitor pedal position, engine and wheel speed, temperature and pressure, and chassis position. These products are sold primarily into the German original equipment market and are produced at our facilities in the UK and Germany, with an increasing proportion being manufactured in lower cost locations in Eastern Europe and China.

The performance of the business was affected in the first half of the year by poor underlying demand from US automotive manufacturers and industrial action at a parts supplier. Demand in the second half of the year declined further in the US and in Europe with a particularly sharp reduction in demand in the fourth quarter, as all of our customers reduced their manufacturing output. In addition, deteriorating margins in poorly performing segments, such as the increasingly commoditised pedal sector, and the high cost of operations in Germany adversely affected performance.

A major restructuring is underway to focus on core sensor expertise, to broaden market exposure beyond automotive and to further re-align the European cost base.

The proposed closure of the AB Electronic facility in Romford, announced in October, is underway and is due to be completed by 30 June 2009. During 2008, seven production lines were transferred off-shore with a further 13 lines moving to lower cost regions in the current year.

Steps were taken in 2008 to reduce our cost base in Germany including the use of short-time working.

In addition, we are in the process of reducing the headcount at our facility in Germany by approximately 225.

It is these businesses which, since January 2009, have constituted the new Sensors division.

The automotive electronic systems business includes climate control panels and infotainment modules, largely destined for the European and North American automotive industry. The business made a substantial operating loss during 2008 as markets were adversely affected by declining volumes and by increasing price pressure from low cost competitors. The closure of the AB Automotive climate control facility in Cardiff was announced in July 2008. This is progressing according to schedule and should be complete in the first half of 2009. The decision has now been taken to withdraw from this business as quickly as possible. This will include the closure of the AB Automotive sites in Brazil and China. In future, this business will be reported as part of the General Industrial division.

Electronic manufacturing services

	2008 £million	2007 £million
Revenue	103.4	92.2
Operating profit	6.0	4.1
Capital employed	34.7	32.4
Return on capital employed	17%	13%
Number of employees	1,343	1,070

TT electronics' global electronic manufacturing services operations are based in the UK, USA, China and Malaysia. These specialise in providing high quality manufacturing support for customers operating in the defence, aerospace, telecom and premium industrial sectors. The Group offers broad capabilities from board assembly to full systems integration, design for manufacturing and logistics support. It has a substantial design engineering team and an international purchasing office based in China.

The Group's strategy is to leverage its global footprint to become an integral part of its customers' manufacturing solutions, with our western manufacturing bases supporting lower volume, more specialist production, and the low cost Far East manufacturing capabilities targeted to those contracts with higher volume. In addition, our operation in China has established a local sales team with the objective of winning business in the large domestic market.

The operations in the UK and China had a very successful first half year. Trading was more difficult in the second half with the completion of some large contracts in the UK. Overall, the business achieved a good improvement in operating profit from £4.1 million in 2007 to £6.0 million in 2008, together with an increase in margins.

During 2008 the businesses were further integrated with the UK, US, China and Malaysian sites brought under a new divisional director. The operations continue to work closely on building customer relations and promoting the division's global presence. The cost base was adjusted during the year and further reductions are planned for 2009. We will continue to monitor developments in the marketplace and act as necessary.

From January 2009 these businesses will be managed and reported as the Integrated Manufacturing Services division. This change of name reflects the division's delivery of integrated supply chain solutions to our customers, focused on higher value-added services for lower volume, complex build and assembly electronic products.

Secure power and industrial

	2008	2007
	£million	£million
Revenue	146.5	139.2
Operating profit	12.9	13.6
Capital employed	54.0	40.1
Return on capital employed	24%	34%
Number of employees	1,391	1,340

The Secure Power business achieved an increase in profits due to good performances at both Dale and Ottomotores, assisted by some foreign exchange benefit arising from the strengthening US dollar for the Mexican business. The other businesses, notably AEI Compounds and W T Henley, also made satisfactory contributions. The overall reduction in the segment's profits from £13.6 million to £12.9 million was mainly due to the connectors business which had achieved an exceptional level of profit in 2007 due to urgent military orders.

TT electronics operates in the secure power market through 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. It is the market leader in Mexico for generator sets and recorded underlying export growth of 22 per cent from the supply of standby generating sets to key markets in the Middle East and Latin America. A new factory was opened during the year in Mexico City. This facility will provide enhanced production capabilities and satisfy the increased demand for acoustic canopies and enclosures.

Dale Power Solutions also provides generator sets and uninterruptible power supplies. It has continued to expand both in the UK and in key emerging markets in the Middle East and North Africa. Projects for the supply of high-reliability, mission-critical power generation equipment for the petrochemical industry in Algeria and uninterruptible power supply equipment for the United Arab Emirates' electricity grid in Dubai were successfully delivered during the year.

From January 2009 these businesses have formed the new Secure Power division with a dedicated divisional Chief Executive to focus on further development.

The interconnection business, which since January 2009 has formed part of the new Components division, operates from two facilities in the UK and one facility in the US. In addition, it is taking advantage of the Group's low cost manufacturing footprint in Mexico, China and Malaysia. The business specialises in the manufacture of specialist connectors for harsh environments and interconnection systems for use by the defence, aerospace and traction markets. It supplies customers on a global basis and works with them in the design of interconnection systems.

The integration of New Chapel Electronics into this business has gone well and is nearing completion. New Chapel Electronics operates in the military and civilian aerospace market. The facility at Smithfield, North Carolina, has continued to expand from its original business of connector assembly to providing interconnection systems to the US military. Rail infrastructure projects continue to be a focus for the UK connector factory in Wales, having secured several contracts in 2008 for the supply of connectors and harnessing systems for new trains being built for London Underground.

The remaining businesses in the former Secure power and industrial division include businesses involved in the manufacture of electrical fusegear, specialist compounds and fine wire. These businesses, together with the automotive electronic systems business (covered under the Sensors and electronic systems division above), form the core of the new General Industrial division.

Restructuring

Exceptional costs were incurred during 2008 in respect of the closure of the AB Automotive climate control facility in Cardiff and the AB Electronic facility at Romford.

	2008
	£million
AB Automotive Electronics Ltd	2.7
AB Electronic Ltd	1.1
	3.8

Dividends and earnings per share

Earnings per share before exceptional items were 9.2 pence (2007: 15.5 pence). Basic earnings per share were 7.5 pence (2007: 15.5 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 and progressively increase dividends from this base.

For the year ending 31 December 2008, the Board has not recommended a final dividend. An interim dividend of 3.69 pence per share was paid in October 2008, making the total dividend for the year 3.69 pence per share (2007: 10.05 pence).

Taxation

The overall rate of tax is 33 per cent (2007: 28 per cent). The underlying rate is 32 per cent before exceptional costs. Deductions arising from cash contributions to the pension funds and the exceptional costs at AB Automotive Electronics and AB Electronic offset taxable profits generated elsewhere within the UK group. The increase in the rate of tax results from changes in the overall mix of profits across the Group and, in particular, the reduced level of operating profits generated by the sensor businesses in Germany and a greater proportion of profits earned in the US and Mexico.

Cash flow, borrowings and facilities

	2008	2007
	£million	£million
Cash generated from operations	46.2	42.9
Capital expenditure	21.9	29.4
Development expenditure	10.9	10.1
Net debt	113.2	75.0
Stock turn	4.1	4.7
Debtor days	58	47
Creditor days	50	46

Cash generated from operations increased by £3.3 million due to a lower level of special contribution towards the pension deficit. Operating profits were lower and there was a net outflow from working capital, mainly due to inventory increases of £6.6 million. A key target for 2009 is a sustained reduction in working capital.

Capital expenditure of £21.9 million was lower than depreciation by £1.5 million. Acquisitions totalled £13.9 million, relating to the purchase of New Chapel Electronics in April 2008 and Semelab in August 2008.

Net debt was £113.2 million at 31 December 2008 (2007: £75.0 million), the increase reflecting the acquisitions described above and the adverse impact of £22.7 million of changes in exchange rates on dollar denominated borrowings. Gearing is calculated at 53 per cent compared with 41 per cent in 2007.

The Group had total banking facilities available of £166.0 million, of which £60.0 million are working capital facilities with a number of major UK and overseas banks which in the ordinary course are periodically renewable. The main term loan of £70.0 million is a multi-currency revolving facility with HSBC drawn down in US dollars and extending to 2011. The amount drawn down in dollars is required to be rebalanced to £70.0 million at the prevailing rate in June 2009 and periodically thereafter and forward contracts have been taken towards covering this position. The financial covenants in the loan agreement restrict gross debt to below three times total earnings before interest, tax, depreciation, amortisation and exceptional items ("EBITDA before exceptionals") and require that EBITDA before exceptionals covers gross interest by at least six times.

These loan covenants were satisfied comfortably at 31 December 2008:

	<u>Target</u>	<u>Actual</u>
Gross debt / EBITDA before exceptionals	< 3	2.0
EBITDA before exceptionals / gross interest	> 6	13.6

Two term loans of £20.4 million and £10 million respectively fall due for renewal in December 2009 and September 2009. Preliminary discussions with both banks concerned have been positive.

The Directors have reviewed the forecasts for 2009 and the projections for 2010 developed during the recent strategic review, which have been adjusted to take account of the current trading environment. Demand in most of the Group's end markets has been 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 pension schemes in the UK. Assets of the defined benefit scheme were valued at £283.1 million at 31 December 2008 (2007: £298.2 million) and the fund benefited from the change in investment strategy implemented during 2007 and 2008.

Scheme liabilities under International Accounting Standard No 19 (IAS19) were valued by the actuaries at £301.7 million (2007: £315.6 million), giving a deficit of £18.6 million (2007: £17.4 million).

The previous funding agreement for the scheme was based on the annual IAS19 deficit with the objective of elimination of this deficit by 2014. The arrangement was susceptible to undue volatility in cash payments by the Group and could have led to a substantial increase in contributions as 2014 approached.

A revised agreement has now been reached with the Trustee for fixed contributions extending out to 2016 based on the last actuarial deficit at April 2007. Contributions of £8.7 million in 2007 and £2.2 million in 2008 have already been made and under the new agreement, the Group will make further contributions as follows: £2.2 million in 2009, £3.2 million in 2010, £3.5 million in 2011, subsequently increasing by £0.2 million each year to £4.5 million in 2016.

Exposure to risks

Financial risks

- Liquidity

The current economic conditions create uncertainty over the availability of bank financing in the present banking climate 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 are to the effect of the translation of profits, net assets denominated in overseas currencies into sterling and transactions in foreign currencies. The policy of the Group is to use hedges to reduce these risks. These hedges are achieved through forward currency contracts and currency borrowings.

- Interest cost

The interest rate is capped on \$50.0 million of total borrowings until February 2010. Short-term interest rate fixes are also used to reduce volatility in interest costs.

Commercial and other risks

The current global financial crisis presents significant challenges to the Group, principally related to the level of market demand.

The Group's largest market sector is automotive where, directly and indirectly, it serves automotive OEM customers. This exposes the Group to several risks including significantly decreasing manufacturing volumes, the potential for material quality claims and financial exposure should such customers be unable to continue trading in their current form. It is possible that one of the larger US automotive manufacturers may seek protection from its creditors which in turn could result in some of its suppliers seeking similar creditor protection. In this event, 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, reliance on customers' commitments and other usual commercial risks in all of its businesses. The Group has a wide portfolio of products and operates in a number of market sectors.

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 have been put in place taking into account the risk involved and the marketplace in which the exposure arises.

Outlook

Trading conditions remained very difficult in the last quarter of 2008 and we have experienced a further significant weakening in customer demand in January and February with limited forward visibility of market demand. The outlook for most of our major markets is both challenging and uncertain as the unprecedented global economic recession continues to severely impact demand.

The outlook for automotive vehicle production is difficult to predict with any confidence and our Sensors division has seen a further rapid decline in demand in the first two months of 2009 as manufacturers reduce inventories and re-align output with consumer demand. The automotive element of the Components division has been similarly affected. We are seeing a significant slowdown in our IMS business as the reduction in manufacturing demand impacts the supply chain. The majority of our other businesses, including Secure Power, are also seeing slower demand. The traction, defence and aerospace markets are proving more resilient and we continue to see solid performance from our Components division in these areas, including our interconnection business and Semelab.

In January we identified 1,295 positions to be eliminated in 2008 and 2009. We have accelerated these actions with more than 1,100 jobs eliminated by the end of February and a further 225 underway in Germany. We are continuing to review our cost base in light of the deteriorating market conditions and we now expect total headcount reductions to be higher with increased benefit in the second half of the year. In addition, we have implemented short-time working and temporary shutdowns across a number of sites and an extensive pay freeze is in place. All of these actions are designed to help limit the impact of the current difficult trading conditions.

Our balance sheet is sound. Based on management expectations adjusted to take account of the present difficult trading environment, we continue to trade comfortably within our banking facilities with reasonable headroom within our covenants. We continue to generate strong cash flows with an ongoing focus on reducing working capital.

Trading conditions in the first two months of the year have become significantly more difficult. Accordingly, trading for the full year to 31 December 2009, and the medium term, is likely to fall materially below management's previous expectations.

The Board is confident that progress against our strategic plan and actions taken to adjust the cost base will provide long term benefits and enhance performance as markets recover.

Geraint Anderson
Group Chief Executive
13 March 2009

Shatish D Dasani
Group Finance Director
13 March 2009

Consolidated income statement
 for the year ended 31 December 2008

	Note	2008 £million	2007 £million
Continuing operations			
Revenue	2	584.3	544.9
Cost of sales		(480.8)	(437.0)
Gross profit		103.5	107.9
Distribution costs		(37.5)	(36.0)
Administrative expenses		(40.4)	(35.2)
Other operating income		1.4	1.0
Operating profit before exceptional items	3	27.0	37.7
Exceptional items	4	(3.8)	-
Operating profit		23.2	37.7
Finance income	5	18.1	18.3
Finance costs	5	(24.0)	(22.7)
Profit before taxation	3	17.3	33.3
Taxation		(5.7)	(9.3)
Profit for the year from continuing operations	3	11.6	24.0
Discontinued operation			
Loss for the year from discontinued operation	7	-	(11.8)
Profit for the year attributable to shareholders		11.6	12.2
Earnings per share			
	8		
From continuing operations			
- basic		7.5p	15.5p
- diluted		7.5p	15.3p
From continuing and discontinued operations			
- basic		7.5p	7.9p
- diluted		7.5p	7.8p

Consolidated balance sheet
 at 31 December 2008

	Note	2008 £million	2007 £million
Assets			
Non-current assets			
Property, plant and equipment		137.4	112.0
Goodwill		74.5	52.3
Other intangible assets		23.6	17.3
Deferred tax assets		5.5	4.2
Total non-current assets		241.0	185.8
Current assets			
Inventories		120.0	91.0
Trade and other receivables		111.5	95.1
Cash and cash equivalents		10.1	7.6
Total current assets		241.6	193.7
Total assets		482.6	379.5
Liabilities			
Current liabilities			
Short-term borrowings		51.2	16.8
Financial derivatives		2.9	0.7
Trade and other payables		99.4	81.9
Current tax payable		3.1	-
Provisions for liabilities	12	5.6	0.3
Total current liabilities		162.2	99.7
Non-current liabilities			
Long-term borrowings		72.1	65.8
Deferred tax provision		8.7	6.0
Pensions and other post employment benefits	11	18.6	17.4
Provisions for liabilities	12	0.1	0.7
Other non-current liabilities		8.0	7.6
Total non-current liabilities		107.5	97.5
Total liabilities		269.7	197.2
Net assets		212.9	182.3
Equity			
Share capital		38.7	38.7
Share premium account		0.2	0.2
Share options reserve		1.2	1.1
Hedging and translation reserves		35.8	(1.5)
Retained earnings		134.6	141.8
Minority interests		2.4	2.0
Total equity	9	212.9	182.3

Consolidated statement of recognised income and expense
for the year ended 31 December 2008

	2008	2007
	£million	£million
Profit for the year	11.6	12.2
Exchange differences on net foreign currency investments	39.4	4.8
Hedging reserve	(2.1)	(0.2)
Actuarial net (loss)/gain on defined benefit pension schemes	(3.2)	38.3
Deferred tax on actuarial gains	-	(14.7)
Total recognised income and expense for the year attributable to shareholders	45.7	40.4

Consolidated cash flow statement
for the year ended 31 December 2008

	Note	2008 £million	2007 £million
Operating activities			
Profit for the year		11.6	12.2
Adjustments for:			
Finance costs		5.9	4.6
Taxation		5.7	8.3
Exceptional items		3.8	-
Depreciation of property, plant and equipment		23.4	21.7
Amortisation of intangible assets		10.9	9.6
Share based payment expense		0.1	0.3
Gain on disposal of property, plant and equipment		(1.9)	(2.7)
Loss on disposal of business		-	12.3
Pension curtailment gain		(1.2)	(1.1)
Other non - cash items		(3.8)	(1.5)
Exceptional costs		(1.7)	-
Additional payments to pension funds		(3.2)	(15.7)
Operating cash flow before movements in working capital		49.6	48.0
Decrease in financial derivatives		2.2	1.3
Increase in inventories		(6.6)	(4.2)
Decrease in receivables		-	0.4
Increase/(decrease) in payables		1.0	(2.6)
Cash generated from operations		46.2	42.9
Tax paid		(3.6)	(7.3)
Net cash from operating activities		42.6	35.6
Cash flows from investing activities:			
Purchase of property, plant and equipment		(21.9)	(29.4)
Proceeds from sale of property, plant and equipment and grants received		5.1	7.1
Development expenditure and purchase of patents and licences		(10.9)	(10.1)
Acquisition of subsidiary net of cash acquired	10	(13.9)	-
Loan repayment		2.0	-
Net cash proceeds from sale of business	7	0.9	10.8
Net cash used in investing activities		(38.7)	(21.6)
Cash flows from financing activities:			
Interest paid (net)		(3.8)	(4.7)
Net changes in long-term borrowings and finance lease liabilities		9.0	0.3
Issue of shares		-	0.2
Dividends paid		(15.6)	(15.6)
Net cash used in financing activities		(10.4)	(19.8)
Net decrease in cash and cash equivalents		(6.5)	(5.8)
Cash and cash equivalents at beginning of period		(5.2)	0.7
Exchange difference		(0.5)	(0.1)
Cash and cash equivalents at end of period		(12.2)	(5.2)
Cash and cash equivalents comprise:			
Cash and cash equivalents		10.1	7.6
Bank overdrafts		(22.3)	(12.8)
		(12.2)	(5.2)

Notes to the financial statements

1. Basis of accounting

The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements for 2008 have been prepared under accounting policies consistent with those used for 2007.

The information set out below, which does not constitute full financial statements within the meaning of S240 CA, 1985, is extracted from the audited financial statements of the Group for the year ended 31 December 2008 which:

- were approved by the Directors on 13 March 2009
- carry an unqualified audit report, which did not contain statements under S237 CA, 1985
- will be posted to shareholders and available to the public in April 2009
- will be filed with the Registrar of Companies following the Annual General Meeting on 13 May 2009

2. Revenue

By sector	2008	2007
	£million	£million
- Sensors and electronic systems	189.2	182.3
- Electronic components	145.2	131.2
- Electronic manufacturing services	103.4	92.2
- Secure power and industrial	146.5	139.2
Total – continuing operations	584.3	544.9

By destination	2008	2007
	£million	£million
United Kingdom	108.3	111.2
Rest of Europe	213.4	201.1
North America	154.3	149.5
Rest of the World	108.3	83.1
Total – continuing operations	584.3	544.9

3. Profit by sector

	2008	2007
	£million	£million
- Sensors and electronic systems	0.8	10.0
- Electronic components	7.3	10.0
- Electronic manufacturing services	6.0	4.1
- Secure power and industrial	12.9	13.6
Operating profit before exceptional items	27.0	37.7
Exceptional items (note 4)	(3.8)	-
Operating profit	23.2	37.7
Finance income	18.1	18.3
Finance costs	(24.0)	(22.7)
Profit before tax	17.3	33.3
Taxation	(5.7)	(9.3)
Profit for the year from continuing operations	11.6	24.0

Notes to the financial statements continued

4. Exceptional items

	2008	2007
	£million	£million
AB Automotive Electronics Limited	2.7	-
AB Electronic Limited	1.1	-
	3.8	-

The exceptional items are the costs of closing the UK production sites of AB Automotive Electronics Limited and AB Electronic Limited. Production for AB Electronic Limited is being relocated to Group companies in China and India.

5. Finance costs - net

	Continuing operations	
	2008	2007
	£million	£million
Interest receivable	0.4	0.5
Expected return on pension scheme assets	17.7	17.8
Finance income	18.1	18.3
Interest on bank overdrafts and loans	4.4	4.7
Interest on finance leases	0.1	0.3
Unwinding of the discount on pension scheme liabilities	19.5	17.7
Finance costs	24.0	22.7
Finance costs – net	5.9	4.4

The loss for the discontinued operation in 2007 included net finance costs of £0.2 million.

6. Dividends

The following dividends have been paid in the year:

	2008	2008	2007	2007
	pence per share	£million	pence per share	£million
Final dividend for prior year	6.36	9.9	6.36	9.9
Interim dividend for current year	3.69	5.7	3.69	5.7
	10.05	15.6	10.05	15.6

The Directors are not recommending the payment of a final dividend for 2008.

7. Discontinued operation

On 3 September 2007 the Group sold the business and net trading assets of AEI Cables Limited which completed the Group's exit from the cables business. The loan note for £0.9 million forming part of the disposal proceeds was repaid on 3 September 2008.

Notes to the financial statements continued

8. Earnings per share

From continuing operations:

	2008	2007
	pence	pence
	per share	per share
Headline	9.2	15.5
Basic	7.5	15.5
Diluted	7.5	15.3

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

	2008	2007
	£million	£million
Profit for the year attributable to shareholders	11.6	12.2
Add loss for the year from discontinued operation	-	11.8
Earnings from continuing operations	11.6	24.0

Weighted average number of shares in issue

	2008	2007
	million	million
Basic	155.0	154.9
Adjustment for share options	0.1	1.5
Diluted	155.1	156.4

Headline earnings per share on continuing operations before exceptional items of 9.2p (2007: 15.5p) is based on the profit for the year of £11.6 million (2007 : £24.0 million) adjusted for exceptional items of £3.8 million (2007 : £nil million) less the associated taxation of £1.1 million (2007 : £nil million).

From continuing and discontinued operations:

	2008	2007
	pence	pence
	per share	per share
Basic	7.5	7.9
Diluted	7.5	7.8

	2008	2007
	£million	£million
Profit for the year attributable to shareholders:		
Earnings basic and diluted	11.6	12.2

The denominators are the same as shown above for both basic and diluted earnings per share.

9. Shareholders' equity

	£million
At 1 January 2008	182.3
Profit for the year	11.6
Exchange differences on net foreign currency investments	39.4
Actuarial net loss on defined benefit pension schemes	(3.2)
Dividends paid	(15.6)
Share based payments	0.1
Cash flow hedges	(2.1)
Minority interests	0.4
At 31 December 2008	212.9

Notes to the financial statements continued

10. Acquisition of subsidiaries

The Group acquired New Chapel Electronics Limited on 2 April 2008 and assets comprising the majority of the business of Semelab Limited on 21 August 2008.

The net assets acquired and the goodwill arising are as follows:

	New Chapel Electronics		Semelab		Total
	Book value £million	Fair value £million	Book value £million	Fair value £million	Fair value £million
Intangible assets	-	1.3	-	1.2	2.5
Property, plant and equipment	0.2	0.3	3.5	3.9	4.2
Inventories	0.7	0.6	2.1	2.2	2.8
Trade and other receivables	0.8	0.8	1.9	2.0	2.8
Trade and other payables	(0.9)	(1.0)	(1.6)	(1.9)	(2.9)
Tax payables	(0.1)	(0.2)	-	-	(0.2)
	0.7	1.8	5.9	7.4	9.2
Goodwill		3.4		2.3	5.7
Total consideration		5.2		9.7	14.9

	£million
Net outflows arising	
Cash consideration	13.6
Cash costs	0.3
Net cash outflow	13.9
Deferred consideration, capped at £1.0 million	1.0
Total consideration	14.9

11. Defined benefit pension schemes

The Group operates defined benefit pension schemes mainly in the UK. The most recent actuarial valuations have been updated by the actuaries to assess the assets and liabilities of the schemes at 31 December 2008.

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

	2008 %	2007 %
Discount rate	6.1	6.0
Inflation rate	2.9	3.2
Increases to pensions in payment	2.2-2.9	2.5-3.2
Salary increases to April 2010 (pensionable salaries have been frozen)	-	-
Salary increases thereafter	3.4	3.7

A decrease in the discount rate by 0.1% pa or an increase in the inflation rate of 0.1% pa increases the scheme liabilities by approximately £5.6 million or £4.2 million respectively.

The expected percentage long-term rates of return on the main asset classes, net of expenses, set by management having regard to actuarial advice and relevant indices were:

	2008 Second half	2008 First half	2007 Second half	2007 First half
Equities	7.5	7.2	7.9	7.0
Bonds	6.1	5.6	5.5	4.5
Gilts and cash	4.5	4.2	4.9	4.0

The mortality tables applied by the actuaries at 31 December 2008 were PA92 MC + two years.

Notes to the financial statements continued

11. Defined benefit pension schemes continued

The amounts recognised on the Group balance sheet are:

	2008	2007
	£million	£million
Equities	174.7	182.0
Bonds	25.8	12.4
Gilts and cash	48.7	103.8
Swaps	33.9	-
Fair value of assets	283.1	298.2
Present value of funded obligation	(301.7)	(315.6)
Net liability recognised on the Consolidated balance sheet	(18.6)	(17.4)

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

	2008	2007
	£million	£million
Opening defined benefit obligation	315.6	344.7
Current service cost	1.9	2.8
Interest on obligation	19.5	18.4
Scheme participant contributions	1.2	1.5
Curtailement gain	(1.2)	(1.1)
Change in actuarial estimates and assumptions	(22.2)	(37.8)
Exchange differences	2.2	-
Benefits paid	(15.3)	(12.9)
Closing defined benefit obligation	301.7	315.6

Changes in the fair value of scheme assets are:

	2008	2007
	£million	£million
Opening fair value of scheme assets	298.2	272.1
Expected return on scheme assets	17.7	18.5
(Deficit)/excess of actual over expected returns	(25.4)	0.5
Contributions by employer	5.1	18.5
Contributions by employees	1.2	1.5
Exchange differences	1.6	-
Benefits paid	(15.3)	(12.9)
Closing fair value of scheme assets	283.1	298.2

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

	2008	2007
	£million	£million
Experience adjustments on schemes' liabilities	22.2	37.8
Experience adjustments on schemes' assets	(25.4)	0.5

A curtailment gain of £1.2 million arises from the closure of the AB Automotive Electronics business and the extension of the freeze on pensionable salaries by one year. The Company has reached agreement with the UK scheme for additional fixed contributions extending to 2016 based on the actuarial deficit at April 2007. These planned contributions amount to: 2009 £2.2 million, 2010 £3.2 million, 2011 £3.5 million then increasing by £0.2 million each year to £4.5 million in 2016.

Notes to the financial statements continued

12. Provisions for liabilities

	Reorganisation £million	Environmental £million	Legal and other claims £million	Total £million
At 1 January 2008	-	0.6	0.4	1.0
Reclassification	-	-	2.3	2.3
Utilised	(1.3)	(0.4)	(0.2)	(1.9)
Transfers from/(to) Consolidated income statement	3.8	(0.1)	0.6	4.3
At 31 December 2008	2.5	0.1	3.1	5.7

The reorganisation provision relates to the closure of production sites of AB Automotive Electronics Limited and AB Electronic Limited, see note 4. The environmental provision is for probable clean up costs of ex-production sites. Legal and other claims represent the best estimate for the cost of settling outstanding product and other claims.

The total provisions are analysed:

	2008 £million	2007 £million
Non-current	0.1	0.7
Current	5.6	0.3
	5.7	1.0

13. Post balance sheet event

On 21 January 2009, the Group announced the results of its Strategic Review, details of which are given in the Business Review and on the Group's website. The Strategic Review reported the exit from the climate control business and European and other restructurings which were estimated to have an exceptional cost of £12.8 million in 2009, and from which substantial cost savings were anticipated.