

TTG.L
17 March 2008

TT electronics is a world leader in sensor and electronic component technology and announces its preliminary results for the year ended 31 December 2007.

Further earnings growth and dividend held

KEY POINTS

- Group revenue from continuing activities of £544.9 million (2006: £539.4 million).
- Operating profit from continuing activities improved to £37.7 million (2006: £36.5 million before exceptional gain).
- Earnings per share from continuing operations increased by 10 per cent to 15.5p (2006: 14.1p before exceptional gain).
- Pension fund deficit reduced to £17.4 million (2006: £72.6 million).
- The Board is recommending a maintained final dividend of 6.36p per share bringing the total for the year to 10.05p (2006: 10.05p).
- Successful exit from low margin, commodity cables operation.
- Employees in low cost manufacturing operations increased to 42 per cent of workforce (2006: 39 per cent).
- Strong cash generation and a robust balance sheet with 41 per cent gearing (2006: 45 per cent) provides a good platform for the future.

Neil Rodgers, Chief Executive, said today:

“TT electronics has reported further growth in 2007, despite deteriorating market conditions in North America and the weakness of the US dollar.

“Our sensor business continues to perform well and approval for the manufacture of accelerator pedals incorporating our innovative Autopad® sensor technology has been received. The electronic manufacturing services business has delivered significant growth in profit and, following the acquisition of TT Apsco, Inc in 2006, has established a truly global footprint.

“TT electronics’ strategy is to invest in leading edge technologies and focus on the development of specialist new products to enhance both our competitive advantage and margins .

“While the challenges in the broader economic environment cause us to take a cautious view for 2008, we believe that we are well positioned in our key markets.”

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Chairman's statement

TT electronics delivered operating profits of £37.7 million compared with £36.5 million before exceptional profit in the previous year, a 3 per cent improvement. Turnover of continuing operations was £544.9 million compared to £539.4 million in the previous year. Finance costs (net) were £4.4 million (2006: £5.3 million). These comprise £4.5 million of bank and finance interest (2006: £3.5 million) and £0.1 million income relating to pension fund accounting (2006: £1.8 million cost). Profit before tax from continuing operations was £33.3 million compared with £31.2 million before exceptional profit in 2006, an increase of 7 per cent. Taxation charge of £9.3 million (2006: £12.0 million) was an effective rate of 28 per cent (2006: 30 per cent).

Basic earnings per share from continuing operations before exceptional items were 15.5p compared with 14.1p in 2006, an increase of 10 per cent.

The sale of our commodity cable business of AEI Cables Limited was completed on 3 September 2007 as I reported in my half year statement. The cash proceeds of sale, following settlement of the completion accounts, were £10.8 million plus a deferred consideration of £0.9 million. This resulted in a final discount including costs of £12.3 million against the carrying value of assets sold. We have retained ownership of the freehold land at the AEI Cables site, which is leased at a market rate, and we expect to produce a profit on the sale of this land in due course.

As a result of the sale of the AEI Cables business, the remaining Electrical sector businesses have been combined into the newly designated 'Secure power and industrial sector'. The analysis of the other sectors is unchanged.

During the year the group incurred costs of the transfer of manufacturing from the USA and Europe to low labour cost areas, in particular Malaysia and China. Further costs will be incurred in 2008 when we transfer the next tranches of the manufacture of electronic systems, sensors and components to our facilities in China, India and Mexico. These moves are essential to remain cost competitive and improve future operating margins.

At 31 December 2007, the group's net indebtedness was £75.0 million compared with £71.0 million in the previous year resulting in gearing of 41 per cent (2006: 45 per cent). The inflow of cash from the sale of AEI Cables has been offset by further additional payments into the group's pension scheme amounting to £15.7 million. The group is utilising 46 per cent of its total borrowing facilities and 43 per cent of these facilities are in the form of a medium term facility with over three years before renewal.

I am pleased to report that, following the significant additional payments into the pension scheme, a higher discount rate and improved returns from the assets held, the deficit on the pension funds has been reduced to £17.4 million compared with £72.6 million at the previous year end. The pension schemes are now 94 per cent funded on an IAS 19 basis (2006: 79 per cent).

The following appointment to the Board has been made since my half year statement: in November 2007, Sean Watson, a senior partner in CMS Cameron McKenna LLP was invited to join the Board as an independent non-executive Director. Sean Watson's knowledge of corporate law will be of great benefit to the Board, especially in the light of the latest Companies Act. On 1 August 2008, Shatish Dasani will join the Board as Finance Director replacing Roderick Weaver who will be retiring on the same day. Roderick has been with the group for 23 years, 12 of which were as Finance Director. All those who know him are aware of the great contribution he has made.

I would like to give my thanks to all the employees of TT electronics for their efforts and contribution to the group's performance during the past year.

The Board recommends a final dividend of 6.36p per share. This is the same final dividend as in the previous year, bringing the total dividend for the year to 10.05p. The final dividend will be paid on 23 May 2008 to shareholders on the register on 16 May 2008.

Whilst current trading is expected to remain overall similar to 2007, the further reorganisation of operations, difficulties in the credit markets and concerns as to the effect on the global economy causes the Board to take a cautious view for the current year.

John W Newman
Executive Chairman
14 March 2008

Business review

TT electronics is a technology based group with a leading position in sensors, electronic components and electronic manufacturing services in global markets.

The group's strategy is to continue to invest in leading edge technologies and to focus on product development for an expanding global customer base. This will enable TT electronics to move up the value chain by producing more specialist, high level assemblies thereby growing competitive advantage and operating margins. The further transfer of manufacturing to lower cost economies, where appropriate, and other cost reduction plans will minimise the effect of price competition. The group's comprehensive global manufacturing capability is a strong platform to service both specialist western based markets and emerging markets.

The disposal of the business of AEI Cables Limited resulted in the power transmission product sector largely being discontinued. The remaining power transmission businesses are now included in the power systems product grouping which has been renamed 'Secure power and industrial'. There are no other changes to the analysis of product grouping.

The summary of key financial performance indicators and a review of the group's overall performance are detailed as follows:

Overview of group performance

	2007	2006
	£million	£million
Revenue		
Continuing operations		
sensors and electronic systems	182.3	184.8
electronic components	131.2	139.9
electronic manufacturing services	92.2	72.1
secure power and industrial	139.2	142.6
	544.9	539.4
Operating profit⁽¹⁾		
Continuing operations		
sensors and electronic systems	10.0	11.6
electronic components	10.0	11.4
electronic manufacturing services	4.1	1.3
secure power and industrial	13.6	12.2
	37.7	36.5
Cash generated from operations	42.9	32.1
Capital employed	277.0	255.2
Return on capital employed	14%	14%
Number of employees	7,546	7,599
Employees in low cost economies	42%	39%

⁽¹⁾ Throughout this review operating profit for 2006 is stated before the exceptional gain. There were no exceptional items in 2007.

TT electronics has generated an operating profit on continuing activities of £37.7 million, which represents a growth of 3 per cent over the prior year's profit of £36.5 million.

This growth has been achieved in market conditions which rapidly became more difficult during the final months of 2007. The global credit crisis, the weakness of the US dollar and a general softness within the USA markets combined to make the final months of 2007 challenging. The effect of currency movements on the translation of revenue and operating profit was a reduction of £19.1 million and £1.4 million respectively. This was predominantly as a result of the exchange rate of the US dollar against sterling weakening from an average rate of 1.84 in 2006 to 2.00 for 2007.

The integration of TT Apsco Inc, which was acquired in November 2006, into the electronic manufacturing services sector has now been completed.

The legal formalities for the establishment of Padmini TT, the new joint venture in India serving the automotive market, have been completed and contracts to supply automotive sensor products are now being won.

The completion of the sale of the business of AEI Cables Limited was a major step forward in the withdrawal from non-core commodity products. This is in line with the strategy to concentrate on more specialist products with higher margins.

The demand for the group's products in world markets has varied dependent upon the sector and geographical market serviced.

The European and Far East markets have remained strong but the well publicised difficulties of the North American automotive market have had an adverse effect on profit. The move of manufacturing to lower cost economies continues to benefit the group and growth in domestic sales in emerging markets is being targeted. The group now has 42 per cent of its employees in low cost economies and the China based operations continue to grow with the establishment of factories for the manufacture of automotive sensors and electronic systems, resistors, electrical fusegear and interconnection systems. Since 2005 the factory space occupied in China has expanded from 2,500 sq. metres to over 15,000 sq. metres.

Work on acquisitions has continued throughout the year but no suitable prospects at an acceptable price have been identified. TT electronics remains cautious of opportunities requiring prices based on high multiples of profits and it is pleasing that the global credit crisis has reduced price expectations of business sellers and may provide trade purchasers such as ourselves with greater opportunity. Consequently activity on the search for suitable acquisitions has been increased.

We remain committed to maintaining the pace of new product development, particularly in our sensor and electronic component sectors. TT electronics has many exciting new technologies and innovative new products, and it is our intention to drive for growth from these and to supplement them with suitable acquisitions to accelerate organic growth of the group. During 2007 the group purchased the patents to expand the use of Autopad® for fuel level sensing and Digital Angular Position Sensing for steering applications.

Sensors and electronic systems

	2007	2006
	£million	£million
Revenue	182.3	184.8
Operating profit	10.0	11.6
Capital employed	105.1	87.4
Return on capital employed	10%	13%
Number of employees	2,429	2,601

TT electronics' leading edge automotive sensor technologies include products such as electronic accelerator pedals, which are single sourced on a range of German premium vehicles, as well as engine and wheel speed, temperature and pressure sensors and chassis height sensors used for load levelling and electronic stability control which is increasingly popular in modern vehicles. An average vehicle may incorporate around fifty electronic sensors and the TT electronics' product range covers up to 20 per cent of these applications. The optoelectronic sensor product range mainly addresses non-automotive markets for applications within office, industrial and banking equipment, a market which is growing in line with increased automation across the world.

The electronic systems manufactured are largely destined for the North American automotive industry. Increasing competition from the Far East, combined with lower volumes and a weak US dollar, have combined to make this a low margin activity. We initiated plans during 2007 to cease manufacture in our North American facility and by the end of 2008 this factory will be used for the sale and service of electronic systems and the manufacture of interconnection systems.

Development of the Autopad® inductive sensor technology suffered with initial delays to the completion of the Application Specific Integrated Circuit ('ASIC') necessary for it to be effective in volume automotive applications. An ASIC development programme can take up to three years to complete. This has caused a major customer for this technology to defer the start of production from autumn 2007 to autumn 2008. However, this development is now complete and customer approval for production has been given. Manufacture of accelerator pedals will commence in quarter two 2008 for production launch on vehicles in quarter four 2008. Autopad® is an innovative technology with excellent growth potential in a range of automotive applications.

The optoelectronic non-automotive sensor range continues to be developed and the product range of visible LEDs has been relaunched. There are many exciting new products for development and launch during 2008, such as ultra violet sensors, optocouplers and encoders. Growth in the Far East has levelled off following our very successful year in 2006. However, we remain confident in the future success of the product line in global markets.

There have been significant investments made in this sector including the extension of one of the German factories to provide further capacity for new products and investment in plant for the manufacture of the Autopad® range of sensors planned for launch in 2008.

The revenue in this sector has declined in 2007 due to the completion of a number of automotive programmes. However the Autopad® technology, the combined growth of automotive temperature and pressure products and the future development of the optoelectronic product range provide an excellent foundation for growth in 2009 and beyond.

Electronic components

	2007	2006
	£million	£million
Revenue	131.2	139.9
Operating profit	10.0	11.4
Capital employed	99.4	95.9
Return on capital employed	10%	12%
Number of employees	2,707	2,598

TT electronics specialises in the manufacture of a wide range of resistive products for the defence, aerospace, industrial and automotive markets. The group's global sales channels provide access to both western based markets and growing emerging markets in China and India. The group's product range targets specialist, high margin markets; products are custom designed for our customers' applications by a global network of experienced application sales engineers who support the customers' design centres.

Within this sector are microcircuit operations which specialise in manufacturing custom designed microcircuits for a range of applications in the defence, aerospace, automotive and premium industrial markets. These products are complex to manufacture and are designed to provide extreme reliability, often operating in harsh environments. Under development for the German automotive industry is an exciting new range of solid state lighting modules for the control of vehicle daylight running lamps and direction indicator units. Production is planned to start during 2008.

In February 2008 the group's UK resistor manufacturing operation announced a reduction in its workforce in line with the transfer of manufacturing of low margin products to lower cost economies. The UK manufacturing operations and the European sales offices have been combined into a single reporting entity in order to facilitate greater market penetration.

There have been two significant investments in the component sector during 2007. Both of these expansions have been completed on time and as planned. The expansion of the Austrian microcircuit factory has been completed; this is needed for the introduction of the new business won recently. Additional production equipment has been installed in our Texas based manufacturing facility and this investment has enabled us to reduce lead times significantly and thereby meet customer delivery expectations. This factory manufactures thin film products and was previously operating on a seven day, twenty-four hour basis. The investment is now complete and we anticipate increased business will result.

The overall market for component products softened during the latter months of 2007; this was particularly pronounced in North America. Revenue from older leaded resistive component products declined as customers substituted these for surface mount component technologies. The marketplace for the products continues to migrate to lower cost economies, particularly the Far East, and we track this transfer to ensure that TT electronics' components remain specified in the customer's product. However, inevitably some business has been lost to local suppliers. To counter this, our sales representation in China and India has been increased and where a financial justification can be made the group will transfer the manufacture of resistive products to those territories.

The outlook for specialist resistive products and microcircuit operations is still healthy; although competition for the older product ranges remains intense.

Electronic manufacturing services

	2007	2006
	£million	£million
Revenue	92.2	72.1
Operating profit	4.1	1.3
Capital employed	32.4	31.4
Return on capital employed	13%	4%
Number of employees	1,070	888

TT electronics global electronic manufacturing services ('ems') operations are based in the UK and USA with low cost manufacturing operations in China and Malaysia. These specialise in providing high quality manufacturing support for customers operating in the defence, aerospace, telecom and premium industrial markets. The group's capability extends to providing design for manufacturing and logistics support, and the group's strategy is to be an integral part of the customer's manufacturing solutions.

The integration of TT Apsco Inc into the TT electronics ems sector is complete. New management is in place, the operation is now focussed on implementing modern manufacturing methods and controls, standard costing has been installed and is giving clear visibility of customer margins, and the sales force expanded. These improvements, particularly to the sales force, are now beginning to bear fruit and the operation has started to win new business for introduction during 2008.

The cost issues reported in the first half year results in connection with the transfer of production from the UK based manufacturing site to Malaysia have been resolved and new management has been put in place.

The ems operations' strategy is to capitalise on the group's global footprint, with the western manufacturing bases supporting lower volume, more specialist production and the low cost manufacturing capabilities targeted to those contracts with higher volumes.

Revenue in this sector has increased by 28 per cent, primarily due to the acquisition of TT Apsco Inc in Cleveland, Ohio in November 2006. New contracts continue to be won in all territories and future growth in revenue and profitability is promising.

Secure power and industrial

	2007	2006
	£million	£million
Revenue	139.2	142.6
Operating profit	13.6	12.2
Capital employed	40.1	40.5
Return on capital employed	34%	30%
Number of employees	1,340	1,512

TT electronics operates in the secure power market concentrating on the supply of standby generators, uninterruptible power systems, electrical control panel upgrades and service. The Mexican factory has established a strong market position in its domestic market and has been very successful in expanding its global sales operations to the export markets in South America and China.

The remaining businesses in this sector are involved in the manufacture of interconnection systems, electrical fusegear, specialist compounds and fine wire.

The standby generator manufacturing operation based in Mexico City has delivered another year of robust performance. The factory site, purchased in late 2005, has received substantial investment and the building has been extended making the site more suitable for high volume equipment manufacture. In the UK, two secure power operations have been combined into a single business on a single site under new management. The combined operations have beaten initial targets and have a promising future.

The interconnection systems operation has expanded from its original business of connector manufacture to become a higher value added supplier of a range of interconnection systems and complex electrical equipment to the defence and traction markets. Manufacturing has been expanded into the USA and China and further growth opportunities in the USA and UK markets identified.

Within the remaining operations, common themes are the outsourcing of manufacturing to third parties, the expansion of revenues in export markets and the continued development of new product ranges to maximise future revenue.

In the industrial markets serviced, growth from new products or markets is more difficult to achieve. However, the businesses in this sector anticipate continued good performance.

The sector's performance has steadily improved and operating profit is 10 per cent of sales with an excellent return on capital employed.

Discontinued operation

The sale of the business of AEI Cables Limited was completed on 3 September 2007. This business manufactured medium power electrical cables, typically suitable for domestic and industrial buildings. The marketplace was dominated by larger manufacturing companies with an international coverage and, although the operation was well run, the margins were not sufficient to compensate for the high risks in the business. The single most significant risk was exposure to the volatility in the cost of copper metal. The business made an operating loss of £0.3 million in 2006 but this loss increased to £1.7 million in the first half of 2007 on revenues of £60.9 million and £26.8 million respectively.

The loss on sale of the discontinued operation including costs was £12.3 million which is lower than that shown in the Interim Report. This is due to the consideration being dependent on finalisation of the completion accounts and the value of assets sold on 3 September. The consideration for the stock at 30 June, included in the assets held for sale, was capped but by the date of the sale the stock levels had been reduced to below the level of the cap and the discount against assets sold was thereby reduced.

Dividends and earnings per share

The final dividend proposed is 6.36p per share, bringing the total dividend for the year to 10.05p which is the same as last year. The dividend cover from ongoing operations for this year has improved to 1.5 times (2006: 1.4 times before exceptional gain).

Basic earnings per share on continuing operations were 15.5p, an improvement of 10 per cent over 2006 which were 14.1p excluding exceptional items. This is based on earnings of £24.0 million (2006: £28.0 million less £8.8 million curtailment and £2.6 million of related tax).

Taxation

The overall rate of tax is 28 per cent (2006: 30 per cent). The additional cash contributions to the pension funds made in the UK are largely an allowable deduction for tax and this, with the termination losses of the business of AEI Cables Limited, and losses brought forward gave rise to unrelieved tax losses carried forward of £13.9 million. There are no other significant unrelieved losses carried forward elsewhere in the group's non-UK operations. The reduction in the tax rates in Germany from approximately 39 per cent to 30 per cent will benefit the group with a reduced tax burden for 2008.

Treasury and borrowings

	2007 £million	2006 £million
Net borrowings	75.0	71.0
Cash generated from operations	42.9	32.1
Capital expenditure	29.4	20.6
	Days	Days
Debtor days outstanding	47	53
Creditors days	46	43
Inventory days	78	72

The group's banking facilities, all of which are unsecured, are provided by a £70 million committed multi-currency facility which expires in April 2011, a two year \$30 million committed facility which expires in December 2009 and overdraft facilities totalling over £70 million provided by major clearing banks in the UK, Germany and other operating locations around the world.

The major elements of change in the levels of borrowing have been: the increase in working capital of £5.1 million (2006: £27.8 million), a level of capital expenditure which has increased to £29.4 million (2006: £20.6 million) and payments to the pension funds of £15.7 million (2006: £7.0 million) less the proceeds of sale of the cables business of £10.8 million. It is expected that capital expenditure in 2008 will be closer to the depreciation charge and overall payments to the pension funds will reduce to £6 million from £18.5 million in 2007.

The net interest charge for bank loans, overdrafts and cash of £4.2 million was covered nine times by operating profit and at the end of December the group's net gearing was 41 per cent (2006: 45 per cent).

Exposure to risk and uncertainties

Foreign currency

The group's main exposures are to changes in the exchange rate of sterling to the US dollar, the euro and the Chinese yuan. The policy of the group is to minimise, in a cost effective way, the effect of such exposures by hedging the risks. These hedges are achieved by matching foreign currency revenues with an equivalent foreign currency cost or by use of forward exchange contracts, swaps and other derivative instruments.

Price changes

The group's single largest exposure to the risk of changes in the cost of raw materials was to the change in price of copper metal. Following the disposal of the electrical cables business this risk is substantially reduced. There are no other significant exposures to risks from changes in the cost of raw materials.

Interest cost

The group has maintained since 2006, a cap to the interest cost on about one third of the total borrowings.

Commercial and other risks

The group is exposed to risks of product liability, credit risk, reliance on customers' commitments and other usual commercial risks. The group has a wide portfolio of products and operates in a number of market sectors, the largest of which is automotive, most importantly the German automotive OEMs. 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 marketplace in which the exposure arises.

Pensions

All of the significant pension schemes in the UK were merged with effect from April 2007 following which an increase in the cost of the provision of the pension was borne by the members who chose to remain in the scheme. As part of the agreement to these changes, the Company committed to a one-off additional cash contribution of £5.5 million in 2007 and to a plan to eliminate the IAS19 deficit, as re-measured each year, by 2014. Overall payments to the fund totalled £18.5 million (2006: £11.4 million).

These payments together with other changes in the valuation of assets and liabilities, return on assets and the interest cost of liabilities resulted in the deficit being reduced from £72.6 million at December 2006 to £33.0 million at June 2007 and £17.4 million at December 2007.

The changes to the actuarial estimates were £37.8 million and £0.5 million for liabilities and assets respectively. The reduction in the level of liabilities was mainly the result of the discount rate applied to future liabilities increasing from 5.3 per cent at December 2006 to 6.0 per cent at the end of 2007.

The mortality tables used in estimating the pension obligations are PA92 medium cohort plus 2 years and are unchanged from those used in 2006.

Outlook

In the current economic climate, with the global credit crisis still evident, the effect of fluctuating exchange rates and the potential for either recession or at best a slow down in our main markets, we remain cautious about 2008.

Growth in the core sensors and electronic component sectors remains dependent on the new products being developed and favourable market conditions in the automotive and industrial sectors. In the ems and secure power and industrial sectors the outlook overall remains stable with the potential for growth.

Further consolidation of the operations involved in sensors, electronic systems and components particularly in the UK will be completed during 2008, as these operations transfer more of their manufacturing capacity to low labour cost economies. The costs of this will impact the first half of 2008.

The new product ranges and further transfers of manufacturing to low cost regions will secure a brighter future for TT electronics in 2009 and beyond.

Neil A Rodgers
Chief Executive
14 March 2008

Roderick W Weaver
Finance Director
14 March 2008

Consolidated income statement
 for the year ended 31 December 2007

	Note	2007 £million	2006 £million
Continuing operations			
Revenue	2	544.9	539.4
Cost of sales		(437.0)	(429.9)
Gross profit		107.9	109.5
Distribution costs		(36.0)	(34.8)
Administrative expenses		(35.2)	(39.2)
Other operating income		1.0	1.0
Operating profit before exceptional item	3	37.7	36.5
Exceptional item	4	-	8.8
Operating profit		37.7	45.3
Finance income	5	18.3	14.0
Finance costs	5	(22.7)	(19.3)
Profit before taxation	3	33.3	40.0
Taxation		(9.3)	(12.0)
Profit for the year from continuing operations	3	24.0	28.0
Discontinued operation			
Loss for the year from discontinued operation	7	(11.8)	-
Profit for the year attributable to shareholders		12.2	28.0
Earnings per share			
	8		
From continuing operations			
- basic		15.5p	18.1p
- diluted		15.3p	17.9p
From continuing and discontinued operations			
- basic		7.9p	18.1p
- diluted		7.8p	17.9p

Consolidated balance sheet
 at 31 December 2007

	Note	2007 £million	2006 £million
Assets			
Non-current assets			
Property, plant and equipment		112.0	108.6
Goodwill		52.3	53.1
Other intangible assets		17.3	16.0
Deferred tax assets		4.2	21.0
Total non-current assets		185.8	198.7
Current assets			
Inventories		91.0	99.8
Trade and other receivables		95.1	104.6
Financial derivatives		-	0.6
Cash and cash equivalents		7.6	9.5
Total current assets		193.7	214.5
Total assets		379.5	413.2
Liabilities			
Current liabilities			
Short-term borrowings		16.8	11.5
Financial derivatives		0.7	-
Trade and other payables		81.9	87.3
Current tax payable		-	1.3
Provisions for liabilities		0.3	0.9
Total current liabilities		99.7	101.0
Non-current liabilities			
Long-term borrowings		65.8	69.0
Deferred tax provision		6.0	5.4
Pensions and other post employment benefits	11	17.4	72.6
Provisions for liabilities		0.7	0.7
Other non-current liabilities		7.6	7.5
Total non-current liabilities		97.5	155.2
Total liabilities		197.2	256.2
Net assets		182.3	157.0
Equity			
Share capital		38.7	38.7
Share premium account		0.2	-
Share options reserve		1.1	0.8
Hedging and translation reserve		(1.5)	(6.1)
Retained earnings		141.8	121.6
Minority interests		2.0	2.0
Total equity	9	182.3	157.0

Consolidated cash flow statement
for the year ended 31 December 2007

	Note	2007 £million	2006 £million
Operating activities			
Profit for the year		12.2	28.0
Adjustments for:			
Finance costs		4.6	5.7
Taxation		8.3	11.3
Depreciation of property, plant and equipment		21.7	23.2
Amortisation of intangible assets		9.6	9.1
Share based payment expense		0.3	0.3
Gain on disposal of property, plant and equipment		(2.7)	(2.0)
Loss on disposal of business		12.3	-
Pension curtailment gain		(1.1)	(8.8)
Other non cash items		(1.5)	0.1
Additional payments to pension funds		(15.7)	(7.0)
Operating cash flow before movements in working capital		48.0	59.9
Decrease/(increase) in financial derivatives		1.3	(1.0)
Increase in inventories		(5.3)	(0.8)
Increase in receivables		(1.3)	(5.6)
Decrease in payables		(0.9)	(14.0)
Exchange differences		1.1	(6.4)
Cash generated from operations		42.9	32.1
Tax paid		(7.3)	(7.0)
Net cash from operating activities		35.6	25.1
Cash flows from investing activities:			
Purchase of property, plant and equipment		(29.4)	(20.6)
Proceeds from sale of property, plant and equipment and grants received		7.1	7.1
Development expenditure and purchase of patents and licences		(10.1)	(8.6)
Acquisition of subsidiary net of cash acquired		-	(14.7)
Net cash proceeds from sale of business	10	10.8	-
Net cash used in investing activities		(21.6)	(36.8)
Cash flows from financing activities:			
Interest paid (net)		(4.7)	(3.8)
Net changes in long-term borrowings and finance lease liabilities		0.3	10.0
Issue of shares		0.2	-
Dividends paid		(15.6)	(15.6)
Net cash used in financing activities		(19.8)	(9.4)
Net decrease in cash and cash equivalents		(5.8)	(21.1)
Cash and cash equivalents at beginning of period		0.7	22.3
Exchange difference		(0.1)	(0.5)
Cash and cash equivalents at end of period		(5.2)	0.7
Cash and cash equivalents comprise:			
Cash and cash equivalents		7.6	9.5
Bank overdrafts		(12.8)	(8.8)
		(5.2)	0.7

Consolidated statement of recognised income and expense
for the year ended 31 December 2007

	2007	2006
	£million	£million
Profit for the year	12.2	28.0
Exchange differences on net foreign currency investments	4.8	(9.6)
Hedging reserve	(0.2)	-
Actuarial net gain on defined benefit pension schemes	38.3	3.2
Deferred tax on actuarial gain	(14.7)	(1.0)
Total recognised income and expense for the year attributable to shareholders	40.4	20.6

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 2007 have been prepared under accounting policies consistent with those used for 2006.

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 2007 which:

- were approved by the Directors on 14 March 2008
- 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 2008
- will be filed with the Registrar of Companies following the Annual General Meeting on 14 May 2008

2. Revenue

On 3 September 2007 the group disposed of the business and net assets of AEI Cables Limited. This transaction meets the criteria of IFRS5 requiring it to be classified as a discontinued operation. Following this disposal the remaining power transmission businesses no longer fulfil the requirements of a segment and are now reported with the power systems businesses as the Secure power and industrial segment.

By sector	2007	2006
	£million	£million
- Sensors and electronic systems	182.3	184.8
- Electronic components	131.2	139.9
- Electronic manufacturing services	92.2	72.1
- Secure power and industrial	139.2	142.6
Total – continuing operations	544.9	539.4

By destination	2007	2006
	£million	£million
United Kingdom	111.2	115.7
Rest of Europe	201.1	200.9
North America	149.5	145.6
Rest of the World	83.1	77.2
Total – continuing operations	544.9	539.4

Notes to the financial statements continued

3. Profit by sector

	2007	2006
	£million	£million
- Sensors and electronic systems	10.0	11.6
- Electronic components	10.0	11.4
- Electronic manufacturing services	4.1	1.3
- Secure power and industrial	13.6	12.2
Operating profit before exceptional item	37.7	36.5
Exceptional operating item (note 4)	-	8.8
Operating profit	37.7	45.3
Finance income	18.3	14.0
Finance costs	(22.7)	(19.3)
Profit before tax	33.3	40.0
Taxation	(9.3)	(12.0)
Profit for the year from continuing operations	24.0	28.0

4. Exceptional item

	2007	2006
	£million	£million
Curtailement of pension scheme benefits	-	8.8

The pensionable salaries of members of the UK defined benefit schemes are frozen for three years. The consequent reduction in the liabilities of the schemes was recognised in the actuarial valuations of the schemes at 31 December 2006 and under the requirements of IAS19 is reported in operating profit.

There were no exceptional items in 2007.

5. Finance costs - net

	Continuing operations	
	2007	2006
	£million	£million
Interest receivable	0.5	0.8
Expected return on pension scheme assets	17.8	13.2
Finance income	18.3	14.0
Interest on bank overdrafts and loans	4.7	4.0
Interest on finance leases	0.3	0.3
Unwinding of the discount on pension scheme liabilities	17.7	15.0
Finance costs	22.7	19.3
Finance costs – net	4.4	5.3

The loss for the discontinued operation included net finance costs of £0.2 million (2006 : £0.4 million).

Notes to the financial statements continued

6. Dividends

The following dividends have been paid in the year:

	2007 pence per share	2007 £million	2006 pence per share	2006 £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 propose that a final dividend of 6.36p will be paid on 23 May 2008 to shareholders on the register on 16 May 2008. The ex-dividend date is 14 May 2008. This dividend is subject to the approval of shareholders at the Annual General Meeting and has not been included as a liability in these accounts. The total estimated cost of the final dividend is £9.9 million.

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 amount included in the income statement for this disposal comprises:

	2007 £million	2006 £million
Loss after taxation before curtailment gain	(0.6)	-
Curtailment of pension scheme benefits	1.1	-
Loss on disposal of business and assets	(12.3)	-
	(11.8)	-

8. Earnings per share

From continuing operations:

	2007 pence per share	2006 pence per share
Basic	15.5	18.1
Diluted	15.3	17.9

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:

	2007 £million	2006 £million
Profit for the year attributable to shareholders	12.2	28.0
Add loss for the year from discontinued operation	11.8	-
Earnings from continuing operations	24.0	28.0

Weighted average number of shares in issue

	2007 million	2006 million
Basic	154.9	154.8
Adjustment for share options	1.5	1.4
Diluted	156.4	156.2

Notes to the financial statements continued

8. Earnings per share continued

Earnings per share on continuing operations before exceptional items of 15.5p (2006 : 14.1p) is based on the profit for the year of £24.0 million (2006 : £28.0 million) adjusted for exceptional items of £nil million (2006 : £8.8 million) less the associated taxation of £nil million (2006 : £2.6 million).

From continuing and discontinued operations:

	2007 pence per share	2006 pence per share
Basic	7.9	18.1
Diluted	7.8	17.9

	2007 £million	2006 £million
Profit for the year attributable to shareholders: Earnings basic and diluted	12.2	28.0

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

From discontinued operation:

	2007 pence per share	2006 pence per share
Basic - loss	(7.6)	-
Diluted - loss	(7.5)	-

	2007 £million	2006 £million
Loss for the year from discontinued operation	(11.8)	-

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

9. Shareholders' equity

	£million
At 1 January 2007	157.0
Profit for the year	12.2
Exchange differences on net foreign currency investments	4.8
Actuarial net gain on defined benefit pension schemes	38.3
Deferred tax on actuarial gain	(14.7)
Dividends paid	(15.6)
Share based payments	0.3
Premium on share issues	0.2
Cash flow hedges	(0.2)
At 31 December 2007	182.3

Notes to the financial statements continued

10. Disposal of AEI Cables business

On 3 September 2007 the group disposed of the AEI Cables business and net trading assets.

(i) The assets sold and sales consideration were:

	2007
	£million
Net assets sold	24.0
Cash consideration	11.3
Cash costs	(0.5)
Cash inflow	10.8
Loan note repayable in one year	0.9
Net consideration	11.7
Loss on disposal	(12.3)

(ii) The loss after taxation for the period to 3 September 2007 was:

	2007	2006
	£million	£million
Revenue	37.6	60.9
Operating loss	(1.4)	(0.3)
Finance costs (net)	(0.2)	(0.4)
Loss before taxation	(1.6)	(0.7)
Taxation	1.0	0.7
Loss for the period	(0.6)	-
Curtailement gain on pension fund	1.1	-

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 2007.

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

	2007	2006
	%	%
Discount rate	6.0	5.3
Inflation rate	3.2	2.9
Increases to pensions in payment	2.5-3.2	2.5-2.9
Salary increases for 3 years	-	-
Salary increases thereafter	3.7	3.4

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:

	2007	2007	2006
	Second half	First half	
Equities	7.9	7.0	6.8
Bonds	5.5	4.5	4.3
Gilts and cash	4.9	4.0	3.6

The mortality tables applied by the actuaries at 31 December 2007 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:

	2007	2006
	£million	£million
Equities	182.0	187.8
Bonds	12.4	10.9
Gilts and cash	103.8	73.4
Fair value of assets	298.2	272.1
Present value of funded obligation	(315.6)	(344.7)
Net liability recognised on the Consolidated balance sheet	(17.4)	(72.6)

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

	2007	2006
	£million	£million
Opening defined benefit obligation	344.7	335.9
Current service cost	2.8	4.4
Interest on obligation	18.4	16.4
Scheme participant contributions	1.5	1.5
Curtailed gain	(1.1)	(8.8)
Change in actuarial estimates and assumptions	(37.8)	6.2
Exchange differences	-	(0.8)
Benefits paid	(12.9)	(10.1)
Closing defined benefit obligation	315.6	344.7

Changes in the fair value of scheme assets are:

	2007	2006
	£million	£million
Opening fair value of scheme assets	272.1	245.7
Expected return on scheme assets	18.5	14.5
Excess of actual over expected returns	0.5	9.4
Contributions by employer	18.5	11.4
Contributions by employees	1.5	1.5
Exchange differences	-	(0.3)
Benefits paid	(12.9)	(10.1)
Closing fair value of scheme assets	298.2	272.1

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:

	2007	2006
	£million	£million
Experience adjustments on schemes' liabilities	37.8	(6.2)
Experience adjustments on schemes' assets	0.5	9.4

Annual General Meeting

The Company proposes to adopt new Articles of Association at its Annual General Meeting to be held on 14 May 2008 primarily to take account of changes brought about by the Companies Act 2006.