

# **TT electronics plc**

Consolidated financial statements for 2004 reported under  
International Financial Reporting Standards

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# Basis of preparation

## Introduction

TT electronics plc is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) from 1 January 2005. The transition date to IFRS for TT electronics plc is 1 January 2004.

The restated results in this document have been prepared on the basis of all IFRS issued by the International Accounting Standards Board currently effective for 2005 reporting in accordance with the accounting policies set out on pages 19 and 20. The financial information in this document is unaudited.

This document sets out the consolidated results for the year to 31 December 2004 and the financial position at 31 December 2004 and the consolidated results for the six months to 30 June 2004 and the financial position at 30 June 2004 converted from the UK Generally Accepted Accounting Principles (UK GAAP) basis onto an IFRS basis.

The estimates made when preparing these statements are consistent with those previously made under UK GAAP unless adjusted to reflect any difference in accounting policy.

The explanatory notes for each primary reporting statement set out the basis for the changes in accounting treatment.

## IFRS1 exemptions

IFRS1, First-time Adoption of International Financial Reporting Standards, establishes exemptions from the full requirements of IFRS for companies complying with them for the first time. TT electronics plc intends to elect to use the following exemptions and the financial information in this document has been prepared on this basis.

- (a) Business combinations: those prior to the transition date have not been restated onto an IFRS basis.
- (b) Fair value at deemed cost: certain items of property, plant and equipment have been fair valued at the transition date and these fair valuations are treated as deemed cost. There is no overall change to the carrying value of property, plant and equipment as a result of these fair valuations.
- (c) Employee benefits: all actuarial gains and losses on defined benefit post retirement schemes at the transition date have been recognised in equity. This is consistent with the FRS17 disclosures in the annual report for 2004 under UK GAAP.
- (d) The group is taking advantage of the exemption in IFRS 1 by not classifying historic translation differences as a separate component of equity. Accordingly the cumulative translation differences for all foreign operations are deemed to be zero at the transition date and the gain or loss on subsequent disposal will therefore exclude translation differences that arose before the date of transition and will include later translation differences.
- (e) Share based payments: the group is not applying the IFRS requirements to equity instruments such as share options granted on or before 7 November 2002.

## Consolidated income statement

for the year ended 31 December 2004

	UK GAAP £million	IFRS adjustments £million	IFRS £million
Turnover	597.4	–	597.4
Trading profit	33.1	(0.1)	33.0
Goodwill amortisation	(2.5)	2.5	–
Operating profit	30.6	2.4	33.0
Profit before interest and taxation	30.6	2.4	33.0
Finance income	0.2	11.8	12.0
Finance costs	(3.2)	(14.3)	(17.5)
Profit before taxation	27.6	(0.1)	27.5
Taxation	(8.6)	(0.5)	(9.1)
Profit after taxation	19.0	(0.6)	18.4
Minority interests	–	–	–
Profit attributable to shareholders	19.0	(0.6)	18.4
Earnings per share – basic	12.3p	(0.4)p	11.9p
Diluted earnings per share	12.2p	(0.4)p	11.8p

## IFRS income statement adjustments

for the year ended 31 December 2004

Notes

	(a) Goodwill amortis- ation £million	(b) Research and develop- ment £million	(c) Pensions £million	(d) Leases £million	(e) Financial instru- ments £million	(f) Share options £million	Total IFRS adjust- ments £million
Cost of sales	–	1.8	1.5	0.3	(0.8)	–	2.8
Sales and distribution costs	–	–	0.3	–	–	–	0.3
Administration expenses	–	–	0.5	0.1	0.1	(0.1)	0.6
Other operating income	–	–	–	–	(3.8)	–	(3.8)
Trading profit	–	1.8	2.3	0.4	(4.5)	(0.1)	(0.1)
Goodwill amortisation	2.5	–	–	–	–	–	2.5
Profit before interest and taxation	2.5	1.8	2.3	0.4	(4.5)	(0.1)	2.4
Finance income	–	–	11.8	–	–	–	11.8
Finance costs	–	–	(14.1)	(0.4)	0.2	–	(14.3)
Profit before taxation	2.5	1.8	–	–	(4.3)	(0.1)	(0.1)
Taxation	–	(0.6)	–	–	0.1	–	(0.5)
Profit after taxation	2.5	1.2	–	–	(4.2)	(0.1)	(0.6)
Minority interests	–	–	–	–	–	–	–
Profit attributable to shareholders	2.5	1.2	–	–	(4.2)	(0.1)	(0.6)

Notes to the IFRS adjustments are on pages 7 and 8.

# Consolidated balance sheets

at 31 December 2003 and 31 December 2004

	At 31 December 2003			At 31 December 2004		
	UK GAAP £million	IFRS adj £million	IFRS £million	UK GAAP £million	IFRS adj £million	IFRS £million
<b>Assets</b>						
Non-current assets						
Property, plant and equipment	143.5	2.8	146.3	133.6	2.7	136.3
Goodwill	44.9	–	44.9	39.9	2.5	42.4
Other intangible assets	–	12.8	12.8	2.8	14.6	17.4
Financial assets	5.3	(0.5)	4.8	5.3	(4.3)	1.0
Deferred tax assets	–	20.9	20.9	–	23.2	23.2
<b>Total non-current assets</b>	<b>193.7</b>	<b>36.0</b>	<b>229.7</b>	<b>181.6</b>	<b>38.7</b>	<b>220.3</b>
Current assets						
Property	1.8	–	1.8	0.1	–	0.1
Inventories	98.5	–	98.5	99.6	–	99.6
Trade and other receivables	108.7	(3.0)	105.7	107.2	(3.4)	103.8
Financial instruments	–	1.1	1.1	–	0.3	0.3
Liquid investments	0.1	(0.1)	–	0.1	(0.1)	–
Cash and cash equivalents	8.5	0.1	8.6	5.4	0.1	5.5
<b>Total current assets</b>	<b>217.6</b>	<b>(1.9)</b>	<b>215.7</b>	<b>212.4</b>	<b>(3.1)</b>	<b>209.3</b>
<b>Total assets</b>	<b>411.3</b>	<b>34.1</b>	<b>445.4</b>	<b>394.0</b>	<b>35.6</b>	<b>429.6</b>
<b>Liabilities</b>						
Current liabilities						
Short term borrowings	36.8	0.1	36.9	17.0	0.1	17.1
Financial instruments	–	0.1	0.1	–	–	–
Trade and other payables	62.2	–	62.2	67.8	–	67.8
Current tax payable	14.0	–	14.0	7.0	–	7.0
Accruals and deferred income	24.3	–	24.3	24.4	–	24.4
Dividends	9.9	(9.9)	–	9.9	(9.9)	–
<b>Total current liabilities</b>	<b>147.2</b>	<b>(9.7)</b>	<b>137.5</b>	<b>126.1</b>	<b>(9.8)</b>	<b>116.3</b>
Non-current liabilities						
Long-term borrowings	50.0	4.8	54.8	51.0	4.7	55.7
Deferred tax provision	1.5	7.5	9.0	0.9	7.8	8.7
Pensions and other post employment benefits	–	62.1	62.1	–	70.9	70.9
Other provisions	2.7	–	2.7	1.6	–	1.6
Other non-current liabilities	10.9	(6.0)	4.9	14.9	(5.2)	9.7
<b>Total non-current liabilities</b>	<b>65.1</b>	<b>68.4</b>	<b>133.5</b>	<b>68.4</b>	<b>78.2</b>	<b>146.6</b>
<b>Total liabilities</b>	<b>212.3</b>	<b>58.7</b>	<b>271.0</b>	<b>194.5</b>	<b>68.4</b>	<b>262.9</b>
<b>Net assets</b>	<b>199.0</b>	<b>(24.6)</b>	<b>174.4</b>	<b>199.5</b>	<b>(32.8)</b>	<b>166.7</b>
<b>Equity</b>						
Share capital	38.7	–	38.7	38.7	–	38.7
Share premium account	56.0	–	56.0	56.0	–	56.0
Capital redemption reserve	4.4	–	4.4	4.4	–	4.4
Merger reserve	23.0	–	23.0	23.0	–	23.0
Share options	–	0.1	0.1	–	0.2	0.2
Retained earnings	74.0	(24.7)	49.3	74.5	(33.0)	41.5
	196.1	(24.6)	171.5	196.6	(32.8)	163.8
Minority interests	2.9	–	2.9	2.9	–	2.9
<b>Total equity</b>	<b>199.0</b>	<b>(24.6)</b>	<b>174.4</b>	<b>199.5</b>	<b>(32.8)</b>	<b>166.7</b>

## IFRS adjustments to 31 December 2003 balance sheet

Notes	(b) R&D	(c) Pensions	(d) Leases	(e) Financial instru- ments	(f) Share options	(g) Deferred tax	(h) Fair values	(i) Dividend accrual	Total IFRS adjust- ments
	£million	£million	£million	£million	£million	£million	£million	£million	£million
<b>Assets</b>									
Non-current assets									
Property, plant and equipment	–	–	2.8	–	–	–	–	–	2.8
Goodwill	–	–	–	–	–	–	–	–	–
Other intangible assets	12.8	–	–	–	–	–	–	–	12.8
Financial assets	–	–	–	(0.5)	–	–	–	–	(0.5)
Deferred tax assets	–	18.7	0.6	–	–	1.2	0.4	–	20.9
<b>Total non-current assets</b>	<b>12.8</b>	<b>18.7</b>	<b>3.4</b>	<b>(0.5)</b>	<b>–</b>	<b>1.2</b>	<b>0.4</b>	<b>–</b>	<b>36.0</b>
Current assets									
Trade and other receivables	–	(2.9)	–	(0.1)	–	–	–	–	(3.0)
Financial instruments	–	–	–	1.1	–	–	–	–	1.1
<b>Total current assets</b>	<b>–</b>	<b>(2.9)</b>	<b>–</b>	<b>1.0</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1.9)</b>
<b>Total assets</b>	<b>12.8</b>	<b>15.8</b>	<b>3.4</b>	<b>0.5</b>	<b>–</b>	<b>1.2</b>	<b>0.4</b>	<b>–</b>	<b>34.1</b>
<b>Liabilities</b>									
Current liabilities									
Short term borrowings	–	–	0.1	–	–	–	–	–	0.1
Financial instruments	–	–	–	0.1	–	–	–	–	0.1
Dividends	–	–	–	–	–	–	–	(9.9)	(9.9)
<b>Total current liabilities</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>0.1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(9.9)</b>	<b>(9.7)</b>
Non-current liabilities									
Long-term borrowings	–	–	4.8	–	–	–	–	–	4.8
Deferred tax provision	4.4	–	–	0.2	–	1.8	1.1	–	7.5
Pension and other post employment benefits	–	62.1	–	–	–	–	–	–	62.1
Other non-current liabilities	–	(6.0)	–	–	–	–	–	–	(6.0)
<b>Total non-current liabilities</b>	<b>4.4</b>	<b>56.1</b>	<b>4.8</b>	<b>0.2</b>	<b>–</b>	<b>1.8</b>	<b>1.1</b>	<b>–</b>	<b>68.4</b>
<b>Total liabilities</b>	<b>4.4</b>	<b>56.1</b>	<b>4.9</b>	<b>0.3</b>	<b>–</b>	<b>1.8</b>	<b>1.1</b>	<b>(9.9)</b>	<b>58.7</b>
<b>Net assets</b>	<b>8.4</b>	<b>(40.3)</b>	<b>(1.5)</b>	<b>0.2</b>	<b>–</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>9.9</b>	<b>(24.6)</b>
<b>Equity</b>									
Share options	–	–	–	–	0.1	–	–	–	0.1
<b>Adjustment to retained earnings</b>	<b>8.4</b>	<b>(40.3)</b>	<b>(1.5)</b>	<b>0.2</b>	<b>(0.1)</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>9.9</b>	<b>(24.7)</b>

Notes to the IFRS adjustments are on pages 7 and 8.

## IFRS adjustments to 31 December 2004 balance sheet

Notes	(a) Goodwill amort- isation £million	(b) R&D £million	(c) Pensions £million	(d) Leases £million	(e) Financial instru- ments £million	(f) Share options £million	(g) Deferred tax £million	(h) Fair values £million	(i) Dividend accrual £million	Total IFRS adjust- ments £million
<b>Assets</b>										
Non-current assets										
Property, plant and equipment	–	–	–	2.7	–	–	–	–	–	2.7
Goodwill	2.5	–	–	–	–	–	–	–	–	2.5
Other intangible assets	–	14.6	–	–	–	–	–	–	–	14.6
Financial assets	–	–	–	–	(4.3)	–	–	–	–	(4.3)
Deferred tax assets	–	–	21.2	0.6	–	–	1.0	0.4	–	23.2
<b>Total non-current assets</b>	<b>2.5</b>	<b>14.6</b>	<b>21.2</b>	<b>3.3</b>	<b>(4.3)</b>	<b>–</b>	<b>1.0</b>	<b>0.4</b>	<b>–</b>	<b>38.7</b>
Current assets										
Trade and other receivables	–	–	(3.5)	–	0.1	–	–	–	–	(3.4)
Financial instruments	–	–	–	–	0.3	–	–	–	–	0.3
<b>Total current assets</b>	<b>–</b>	<b>–</b>	<b>(3.5)</b>	<b>–</b>	<b>0.4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(3.1)</b>
<b>Total assets</b>	<b>2.5</b>	<b>14.6</b>	<b>17.7</b>	<b>3.3</b>	<b>(3.9)</b>	<b>–</b>	<b>1.0</b>	<b>0.4</b>	<b>–</b>	<b>35.6</b>
<b>Liabilities</b>										
Current liabilities										
Short term borrowings	–	–	–	0.1	–	–	–	–	–	0.1
Dividends	–	–	–	–	–	–	–	–	(9.9)	(9.9)
<b>Total current liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(9.9)</b>	<b>(9.8)</b>
Non-current liabilities										
Long-term borrowings	–	–	–	4.7	–	–	–	–	–	4.7
Deferred tax provision	–	5.0	–	–	0.1	–	1.6	1.1	–	7.8
Pension and other post employment benefits	–	–	70.9	–	–	–	–	–	–	70.9
Other non-current liabilities	–	–	(5.2)	–	–	–	–	–	–	(5.2)
<b>Total non-current liabilities</b>	<b>–</b>	<b>5.0</b>	<b>65.7</b>	<b>4.7</b>	<b>0.1</b>	<b>–</b>	<b>1.6</b>	<b>1.1</b>	<b>–</b>	<b>78.2</b>
<b>Total liabilities</b>	<b>–</b>	<b>5.0</b>	<b>65.7</b>	<b>4.8</b>	<b>0.1</b>	<b>–</b>	<b>1.6</b>	<b>1.1</b>	<b>(9.9)</b>	<b>68.4</b>
<b>Net assets</b>	<b>2.5</b>	<b>9.6</b>	<b>(48.0)</b>	<b>(1.5)</b>	<b>(4.0)</b>	<b>–</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>9.9</b>	<b>(32.8)</b>
<b>Equity</b>										
Share options	–	–	–	–	–	0.2	–	–	–	0.2
<b>Adjustment to retained earnings</b>	<b>2.5</b>	<b>9.6</b>	<b>(48.0)</b>	<b>(1.5)</b>	<b>(4.0)</b>	<b>(0.2)</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>9.9</b>	<b>(33.0)</b>

Notes to the IFRS adjustments are on pages 7 and 8.

## Notes to the IFRS adjustments

### (a) **Goodwill amortisation**

Under UK GAAP, goodwill is amortised over its expected useful economic life, whereas under IFRS goodwill is considered to have an indefinite life and is not amortised, but is tested for impairment annually. No impairment provisions were required at either 31 December 2003 or 31 December 2004. This adjustment reverses the goodwill amortisation charged under UK GAAP since the date of transition.

### (b) **Research and development**

The group's policy under UK GAAP was to charge research and development expenditure to profit and loss account as incurred. Under IFRS, development expenditure that satisfies the criteria for recognition as an intangible asset is capitalised and then amortised over its expected useful life of up to three years. This adjustment reverses the development expenditure previously charged to profit and charges profit with amortisation of development expenditure capitalised.

### (c) **Pensions**

The group accounted for defined benefit post retirement benefits under UK GAAP in accordance with SSAP24 which spreads the cost of providing benefits over the expected average service lives of employees. Additional disclosures under Financial Reporting Statement (FRS)17 reported the pension fund deficits. The equivalent IFRS standard, IAS19, adopts similar methodology to FRS17. In accordance with IAS19 the deficit at 1 January 2004, the transition date, has been recognised on the balance sheet. The income statement bears the service cost (being the increase in the present value of the defined benefit obligation resulting from employee service in the period) as part of operating profit, and the finance cost, being the interest on pension scheme liabilities less the expected return on pension scheme assets. The group's policy under IFRS is to charge all actuarial gains and losses directly to equity rather than use the corridor approach which smoothes such gains and losses. This treatment of actuarial gains and losses is in accordance with amendments to IAS19.

### (d) **Leasehold property**

Certain leasehold properties that are accounted for as held under operating leases for UK GAAP are to be accounted for as finance leases under IFRS. The fair value of the properties is capitalised and this is written off over the expected useful life of the property. The present value of future rental payments is recorded as finance lease debt.

The capitalisation of one such leasehold property triggered an impairment review which led to a write down on transition to IFRS of £2.1 million resulting in a net £2.8 million being capitalised at 31 December 2003.

### (e) **Financial instruments**

(i) Under UK GAAP, monetary assets and liabilities which are matched by forward currency contracts are translated at the contracted rate. IFRS requires that the monetary assets and liabilities are translated at the year end rate and that the currency contracts are reported at market value as current assets or liabilities. Unmatched forward currency contracts and interest rate swaps are also reported as financial instruments at market value under IFRS. Gains and losses on the remeasurement of such financial instruments to fair value are charged to the income statement.

(ii) The investment in Pressac plc (Pressac) has been accounted for as a fixed asset investment at cost, £5.3 million, under UK GAAP.

TT electronics plc holds 24.4% of the equity of Pressac and under IFRS is required to consider its ability to exercise influence on the presumption that it has significant influence which would make Pressac an associate. The group does not have significant influence over the financial or operating policies of Pressac and has accounted for its holding in Pressac as a financial asset at fair value through profit or loss under this policy. The holding in Pressac is held at market value on the balance sheet and changes in the market value are dealt with in the income statement.

(f) **Share options**

Under UK GAAP at 31 December 2004 there is no charge to profit and loss account for share options granted at the market price since they have no intrinsic value. IFRS requires that the fair value of such options at the date of grant is charged to the income statement. The fair value has been determined using the binomial model and is being charged to profit evenly over the vesting period of 3 years.

(g) **Deferred taxation**

An adjustment has been made so that a deferred tax asset in one tax jurisdiction is not offset against a liability in a different tax jurisdiction. The deferred tax in respect of non-current assets which are carried at a value different from their tax base gives rise to an adjustment between UK GAAP and IFRS.

(h) **Fair values of property, plant and equipment**

Certain items of property, plant and equipment have been fair valued at the transition date. Although there is no overall change to the carrying value of property, plant and equipment this is the deferred tax effect of such fair valuations.

(i) **Dividend accrual**

Dividends relating to an accounting period are dealt with in that period under UK GAAP. IFRS does not recognise a dividend until it is declared, usually after the accounting period to which it relates. This adjustment writes back the accrual for the interim and final dividend as appropriate.

## Cash flow statement

for the year ended 31 December 2004

	UK GAAP £million	IFRS adjustments £million	IFRS £million
Cash generated from operations	58.3	11.4	69.7
Income taxes	(15.8)	–	(15.8)
Net cash from operating activities	42.5	11.4	53.9
Cash flows from investing activities	(11.7)	(10.8)	(22.5)
Cash flows from financing activities	(14.3)	(0.6)	(14.9)
Increase in cash and cash equivalents	16.5	–	16.5
Cash and cash equivalents brought forward	(27.2)	0.1	(27.1)
Exchange difference	1.0	–	1.0
Cash and cash equivalents carried forward	(9.7)	0.1	(9.6)
Cash and cash equivalents comprise:			
Cash and cash equivalents	5.4	0.1	5.5
Bank overdrafts	(15.1)	–	(15.1)
	(9.7)	0.1	(9.6)

Notes to the IFRS adjustments are on page 10.

## IFRS cash flow statement adjustments

for the year ended 31 December 2004

Notes	(b) Development costs £million	(c) Leases £million	Total IFRS adjustment £million
Cash generated from operations	10.8	0.6	11.4
Cash flows from investing activities	(10.8)	–	(10.8)
Cash flows from financing activities	–	(0.6)	(0.6)
	–	–	–

### Notes

- (a) The overall cash flows of the group do not change as a result of using IFRS. The IFRS cash flow format includes various cash flows in different categories and in a different order to UK GAAP. Liquid investments with a maturity of less than three months are included in cash and cash equivalents. Dividends and interest paid are included as a financing cost. Tax is reported as an operating cash flow.
- (b) Development costs that satisfy the criteria for recognition as intangible assets are capitalised and amortised. Such expenditure forms part of investing activities for cash flow purposes.
- (c) Certain leasehold properties accounted for as operating leases under UK GAAP are accounted for as finance leases under IFRS. The cash flow categorisation changes accordingly.

## Reconciliation of movements in equity

at 31 December 2004

	UK GAAP £million	IFRS adjustments £million	IFRS £million
Total equity at 1 January 2004	199.0	(24.6)	174.4
Profit for the year	19.0	(0.6)	18.4
Exchange differences on net foreign currency investments	(2.9)	–	(2.9)
Dividends	(15.6)	–	(15.6)
Share options	–	0.1	0.1
Actuarial loss (net) on defined benefit pension schemes	–	(7.7)	(7.7)
Total equity at 31 December 2004	199.5	(32.8)	166.7

### Notes

- (a) IFRS adjustments to the equity at 1 January 2004 and to the profit for 2004 are analysed on pages 5 and 3 respectively.
- (b) The IFRS adjustment to account for pensions under IAS19 is described on page 7.
- (c) The IFRS adjustment for share options is explained on page 8.

## Consolidated income statement

for the six months ended 30 June 2004

	UK GAAP £million	IFRS adjustments £million	IFRS £million
Turnover	299.1	–	299.1
Trading profit	15.3	(1.3)	14.0
Goodwill amortisation	(1.3)	1.3	–
Operating profit	14.0	–	14.0
Profit before interest and taxation	14.0	–	14.0
Finance income	0.1	5.9	6.0
Finance costs	(1.6)	(7.3)	(8.9)
Profit before taxation	12.5	(1.4)	11.1
Taxation	(3.8)	(0.3)	(4.1)
Profit after taxation	8.7	(1.7)	7.0
Minority interests	–	–	–
Profit attributable to shareholders	8.7	(1.7)	7.0
Earnings per share – basic	5.6p	(1.2)p	4.4p
Diluted earnings per share	5.6p	(1.2)p	4.4p

## IFRS income statement adjustments

for the six months ended 30 June 2004

Notes

	(a) Goodwill amorti- sation £million	(b) Research and develop- ment £million	(c) Pensions £million	(d) Leases £million	(e) Financial instru- ments £million	(f) Share options £million	Total IFRS adjust- ments £million
Cost of sales	–	0.5	0.5	0.1	–	–	1.1
Sales and distribution costs	–	–	0.1	–	–	–	0.1
Administration expenses	–	–	0.1	0.1	0.1	(0.1)	0.2
Other operating income	–	–	–	–	(2.7)	–	(2.7)
Trading profit	–	0.5	0.7	0.2	(2.6)	(0.1)	(1.3)
Goodwill amortisation	1.3	–	–	–	–	–	1.3
Profit before interest and taxation	1.3	0.5	0.7	0.2	(2.6)	(0.1)	–
Finance income	–	–	5.9	–	–	–	5.9
Finance costs	–	–	(7.1)	(0.2)	–	–	(7.3)
Profit before taxation	1.3	0.5	(0.5)	–	(2.6)	(0.1)	(1.4)
Taxation	–	(0.1)	(0.1)	–	(0.1)	–	(0.3)
Profit after taxation	1.3	0.4	(0.6)	–	(2.7)	(0.1)	(1.7)
Minority interests	–	–	–	–	–	–	–
Profit attributable to shareholders	1.3	0.4	(0.6)	–	(2.7)	(0.1)	(1.7)

Notes to the IFRS adjustments are on pages 7 and 8.

# Consolidated balance sheet

at 30 June 2004

	UK GAAP £million	IFRS adjustments £million	IFRS £million
<b>Assets</b>			
Non-current assets			
Property, plant and equipment	138.3	2.8	141.1
Goodwill	43.4	1.3	44.7
Other intangible assets	2.9	13.3	16.2
Financial assets	5.3	(3.2)	2.1
Deferred tax assets	–	20.8	20.8
<b>Total non-current assets</b>	<b>189.9</b>	<b>35.0</b>	<b>224.9</b>
Current assets			
Property	0.7	–	0.7
Inventories	105.6	–	105.6
Trade and other receivables	111.1	(3.0)	108.1
Financial instruments	–	1.0	1.0
Liquid investments	0.1	(0.1)	–
Cash and cash equivalents	6.9	0.1	7.0
<b>Total current assets</b>	<b>224.4</b>	<b>(2.0)</b>	<b>222.4</b>
<b>Total assets</b>	<b>414.3</b>	<b>33.0</b>	<b>447.3</b>
<b>Liabilities</b>			
Current liabilities			
Short term borrowings	31.7	0.2	31.9
Financial instruments	–	0.1	0.1
Trade and other payables	72.6	–	72.6
Current tax payable	7.2	–	7.2
Accruals and deferred income	28.9	–	28.9
Dividends	5.7	(5.7)	–
<b>Total current liabilities</b>	<b>146.1</b>	<b>(5.4)</b>	<b>140.7</b>
Non-current liabilities			
Long-term borrowings	51.1	4.8	55.9
Deferred tax provision	1.8	7.7	9.5
Pensions and other post employment benefits	–	61.9	61.9
Other provisions	3.2	–	3.2
Other non-current liabilities	12.9	(5.6)	7.3
<b>Total non-current liabilities</b>	<b>69.0</b>	<b>68.8</b>	<b>137.8</b>
<b>Total liabilities</b>	<b>215.1</b>	<b>63.4</b>	<b>278.5</b>
<b>Net assets</b>	<b>199.2</b>	<b>(30.4)</b>	<b>168.8</b>
<b>Equity</b>			
Share capital	38.7	–	38.7
Share premium account	56.0	–	56.0
Capital redemption reserve	4.4	–	4.4
Merger reserve	23.0	–	23.0
Share options	–	0.2	0.2
Retained earnings	74.2	(30.6)	43.6
	196.3	(30.4)	165.9
Minority interests	2.9	–	2.9
<b>Total equity</b>	<b>199.2</b>	<b>(30.4)</b>	<b>168.8</b>

## IFRS adjustments to 30 June 2004 balance sheet

Notes	(a) Goodwill amortisation	(b) R&D	(c) Pensions	(d) Leases	(e) Financial instru- ments	(f) Share options	(g) Deferred tax	(h) Fair values	(i) Dividend accrual	Total IFRS adjust- ments
	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million
<b>Assets</b>										
Non-current assets										
Property, plant and equipment	–	–	–	2.8	–	–	–	–	–	2.8
Goodwill	1.3	–	–	–	–	–	–	–	–	1.3
Other intangible assets	–	13.3	–	–	–	–	–	–	–	13.3
Financial assets	–	–	–	–	(3.2)	–	–	–	–	(3.2)
Deferred tax assets	–	–	18.6	0.6	–	–	1.2	0.4	–	20.8
<b>Total non-current assets</b>	<b>1.3</b>	<b>13.3</b>	<b>18.6</b>	<b>3.4</b>	<b>(3.2)</b>	<b>–</b>	<b>1.2</b>	<b>0.4</b>	<b>–</b>	<b>35.0</b>
Current assets										
Trade and other receivables	–	–	(3.2)	–	0.2	–	–	–	–	(3.0)
Financial instruments	–	–	–	–	1.0	–	–	–	–	1.0
<b>Total current assets</b>	<b>–</b>	<b>–</b>	<b>(3.2)</b>	<b>–</b>	<b>1.2</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2.0)</b>
<b>Total assets</b>	<b>1.3</b>	<b>13.3</b>	<b>15.4</b>	<b>3.4</b>	<b>(2.0)</b>	<b>–</b>	<b>1.2</b>	<b>0.4</b>	<b>–</b>	<b>33.0</b>
<b>Liabilities</b>										
Current liabilities										
Short term borrowings	–	–	–	0.1	0.1	–	–	–	–	0.2
Financial instruments	–	–	–	–	0.1	–	–	–	–	0.1
Dividends	–	–	–	–	–	–	–	–	(5.7)	(5.7)
<b>Total current liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>0.2</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(5.7)</b>	<b>(5.4)</b>
Non-current liabilities										
Long-term borrowings	–	–	–	4.8	–	–	–	–	–	4.8
Deferred tax provision	–	4.5	–	–	0.3	–	1.8	1.1	–	7.7
Pension and other post employment benefits	–	–	61.9	–	–	–	–	–	–	61.9
Other non-current liabilities	–	–	(5.6)	–	–	–	–	–	–	(5.6)
<b>Total non-current liabilities</b>	<b>–</b>	<b>4.5</b>	<b>56.3</b>	<b>4.8</b>	<b>0.3</b>	<b>–</b>	<b>1.8</b>	<b>1.1</b>	<b>–</b>	<b>68.8</b>
<b>Total liabilities</b>	<b>–</b>	<b>4.5</b>	<b>56.3</b>	<b>4.9</b>	<b>0.5</b>	<b>–</b>	<b>1.8</b>	<b>1.1</b>	<b>(5.7)</b>	<b>63.4</b>
<b>Net assets</b>	<b>1.3</b>	<b>8.8</b>	<b>(40.9)</b>	<b>(1.5)</b>	<b>(2.5)</b>	<b>–</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>5.7</b>	<b>(30.4)</b>
<b>Equity</b>										
Share options	–	–	–	–	–	0.2	–	–	–	0.2
<b>Adjustment to retained earnings</b>	<b>1.3</b>	<b>8.8</b>	<b>(40.9)</b>	<b>(1.5)</b>	<b>(2.5)</b>	<b>(0.2)</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>5.7</b>	<b>(30.6)</b>

Notes to the IFRS adjustments are on pages 7 and 8.

## Cash flow statement

for the six months ended 30 June 2004

	UK GAAP £million	IFRS adjustments £million	IFRS £million
Cash generated from operations	27.2	5.5	32.7
Interest received	0.1	–	0.1
Income taxes	(9.7)	–	(9.7)
Net cash from operating activities	17.6	5.5	23.1
Cash flows from investing activities	(5.2)	(5.3)	(10.5)
Cash flows from financing activities	(9.1)	(0.2)	(9.3)
Increase in cash and cash equivalents	3.3	–	3.3
Cash and cash equivalents brought forward	(27.2)	0.1	(27.1)
Exchange difference	0.5	–	0.5
Cash and cash equivalents carried forward	(23.4)	0.1	(23.3)
Cash and cash equivalents comprise:			
Cash and cash equivalents	6.9	0.1	7.0
Bank overdrafts	(30.3)	–	(30.3)
	(23.4)	0.1	(23.3)

Notes to the IFRS adjustments are on page 17.

## IFRS cash flow statement adjustments

for the six months ended 30 June 2004

Notes	(b) Development costs £million	(c) Leases £million	Total IFRS adjustment £million
Cash generated from operations	5.3	0.2	5.5
Interest paid	–	(0.2)	(0.2)
Cash flows from investing activities	(5.3)	–	(5.3)
	–	–	–

### Notes

- (a) The overall cash flows of the group do not change as a result of using IFRS. The IFRS cash flow format includes various cash flows in different categories and in a different order to UK GAAP. Liquid investments with a maturity of less than three months are included in cash and cash equivalents. Dividends and interest paid are included as financing costs. Tax is reported as an operating cash flow.
- (b) Development costs that satisfy the criteria for recognition as intangible assets are capitalised and amortised. Such expenditure forms part of investing activities for cash flow purposes.
- (c) Certain leasehold properties accounted for as operating leases under UK GAAP are accounted for as finance leases under IFRS. The cash flow categorisation changes accordingly.

## Reconciliation of movements in equity at 30 June 2004

	UK GAAP £million	IFRS adjustments £million	IFRS £million
Total equity at 1 January 2004	199.0	(24.6)	174.4
Profit for the period	8.7	(1.7)	7.0
Exchange differences on net foreign currency investments	(2.8)	–	(2.8)
Dividends	(5.7)	(4.2)	(9.9)
Share options	–	0.1	0.1
Total equity at 30 June 2004	199.2	(30.4)	168.8

### Notes

- (a) IFRS adjustments to the equity at 1 January 2004 and to the profit for the six months to 30 June 2004 are analysed on pages 5 and 13 respectively.
- (b) The IFRS statement includes the final dividend, for 2003, of £9.9 million declared in the first half of 2004.
- (c) The IFRS adjustment for share options is explained on page 8.

## Accounting policies under IFRS

The restated financial information for the six months to 30 June 2004 and the year to 31 December 2004 and the opening balance sheet at 1 January 2004 (the transition date for the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS).

The group has adopted the amendment to IAS19 'Employee benefits' early, allowing actuarial gains and losses to be charged to reserves in the period they arise. The accounts are prepared under the historical cost convention modified by the revaluation of financial assets and derivatives held at fair value and by the revaluation at the transition date of certain property, plant and equipment. The revalued amount for property, plant and equipment is accounted for thereafter as deemed cost.

### **Basis of consolidation**

The group's financial statements consolidate the financial statements of TT electronics plc and all its subsidiaries. Subsidiaries are consolidated from the date on which control transfers to the group and are included until the date on which the group ceases to control them. Transactions between group companies are eliminated on consolidation.

### **Revenue recognition**

Revenue is the invoiced value of goods and services supplied to external customers excluding value added tax and other sales related taxes. Transactions are recorded as sales when the delivery of products or performance of services takes place in accordance with the contract terms of sale.

### **Foreign currencies**

Assets and liabilities of overseas subsidiaries are translated into sterling at the rate of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries are translated into sterling using the average rate of exchange for the year. Exchange movements on the restatement of the net assets of overseas subsidiaries, foreign currency loans held for the purpose of financing overseas investments, and the adjustment between the income statement translated at the average rate and the closing rate are taken directly to reserves. All other exchange differences are dealt with through the consolidated income statement. On disposal of an overseas subsidiary any cumulative exchange movements relating to that subsidiary held in reserves are transferred to the consolidated income statement.

The group uses forward currency contracts in order to hedge its exposure to foreign exchange risks, the accounting policies in respect of these financial instruments are set out on page 20.

### **Goodwill**

Goodwill arising on the acquisition of a business, representing the difference between the cost of acquisition and the fair value of the separable net assets acquired is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Prior to 1 January 2004, goodwill was amortised over its expected useful economic life up to a maximum of 20 years. Goodwill on acquisitions made before 1 January 1998 was charged directly to reserves in the year in which it arose. On the subsequent disposal or discontinuance of a previously acquired business the relevant goodwill is dealt with in the income statement except for the goodwill already charged to reserves.

### **Other intangible assets**

Intangible assets acquired as part of a business combination are stated in the balance sheet at their fair value at the date of acquisition less accumulated amortisation. Internally generated intangible assets, principally product development costs, are stated in the balance sheet at cost less accumulated amortisation. The amortisation rates for intangible assets are:

Acquired patents and licences	up to 20 years
Development projects	up to 3 years

The carrying values of intangible assets are reviewed for impairment when there is an indication that they may be impaired.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less a provision for depreciation. Depreciation is calculated so as to write-off the cost less estimated residual value of the assets in equal instalments over their expected useful lives. No depreciation is provided on freehold land. Depreciation is provided on other assets at the following rates:

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

The carrying values of property, plant and equipment are reviewed for impairment when there is an indication that they may be impaired.

### **Inventories**

Inventories are valued at the lower of cost, including related overheads, and net realisable value.

### **Deferred taxation**

Deferred taxation is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases. Deferred tax assets are recognised to the extent that it is reasonably foreseeable that taxable profits will be available against which temporary differences can be utilised. No provision is made for deferred tax which would become payable on the distribution of retained profits by overseas subsidiaries unless there is an intention to distribute such profits. Deferred tax is measured using the tax rates expected to apply when the asset is realised or the liability settled based on tax rates enacted or substantially enacted by the balance sheet date.

### **Investments**

Investments are stated in the balance sheet at fair value and classified as either financial assets at fair value through profit or loss or as available for sale assets. Changes in the fair value of financial assets through profit or loss are reported through the income statement. Changes in the fair value of available for sale financial assets are recognised in reserves until the investment is disposed of or impaired, at which point the cumulative gain or loss previously recognised in reserves is transferred to the income statement.

### **Leases**

Assets acquired under finance leases which confer substantially all the risks and rewards of ownership of an asset are capitalised within property, plant and equipment and the outstanding rental instalments, net of interest, are shown in borrowings. Assets held under finance leases are depreciated over the shorter of the lease terms and the expected useful lives of the assets.

Payments on operating leases are charged to the income statement on a straight line basis over the lease term.

### **Financial instruments**

Derivative financial instruments are measured at fair value using market rates. The group uses forward foreign exchange contracts and interest rate swaps to manage its exposure to changes in exchange rates and interest rates. These derivative financial instruments are classified as fair value through profit or loss and all changes in fair value are recognised in the consolidated income statement.

The group uses forward contracts for key raw materials to minimise the risk of the effect of fluctuations in their cost. These forward contracts are accounted for in the accounting period in which they mature.

### **Employee benefits**

The group operates defined benefit post retirement benefit plans and defined contribution pension plans.

The liability recognised in the balance sheet for defined benefit plans is the present value of scheme liabilities less the fair value of scheme assets. The operating and financing costs of defined benefit plans are recognised separately in the income statement. Operating costs comprise the current service cost, any gains or losses on settlement or curtailments, and past service costs where benefits have vested. Finance items comprise the interest on plan liabilities and the expected return on plan assets. Actuarial gains or losses comprising differences between the actual and expected return on plan assets, changes in plan liabilities due to experience and changes in actuarial assumptions are recognised immediately within retained earnings.

Pension costs for the defined contribution plans represent the amount of contributions payable in respect of the accounting period.

### **Government grants**

Government grants relating to non current assets are treated as deferred income and credited to the income statement by equal instalments over the anticipated useful lives of the assets to which the grants relate. Other grants are credited to the income statement over the period of the project to which they relate.

### **Research and development**

Research costs are written off as incurred. Development costs incurred in the development of new or substantially improved products and processes are capitalised as intangible assets if it is probable that the expenditure will generate future economic benefits and can be measured reliably.

### **Share based payments**

The fair value at the date of grant of share based remuneration, principally share options, is calculated using a binomial pricing model and charged to the income statement on a straight line basis over the vesting period of the award. The charge to the income statement takes account of the estimated number of shares that will vest. All share based remuneration is equity settled.

### **Segmental reporting**

The group's primary reporting format is business segments and its secondary format is geographical segments.



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