87249.

TT electronics plc

ANNUAL REPORT 2002

TT electronics
TOMORROW'S TECHNOLOGY

CONTENTS

HIGHLIGHTS

- Continuing success achieved in the automotive sensors and systems market – strong order intake experienced which is expected to provide growth of 25 per cent by 2005
- The recently announced acquisition of the business of Demo Tableaux de Commande, a French manufacturer of electromechanical climate control units adds complementary products which are currently designed into Renault, Peugeot and Citroen cars
- Gearing has been further reduced to 27 per cent and TT electronics continues to have a strong balance sheet
- The Board is recommending a maintained final dividend of 6.36p per share bringing the total for the year to 10.05p (2001 – 10.05p)

FINANCIAL INFORMATION

	2002	2001
Turnover – total	**£520.3m**	£657.9m
– discontinued	–	(£27.2m)
– continuing activities	**£520.3m**	£630.7m
– ceased activities – copper rod	–	(£36.1m)
Turnover – ongoing activities excluding copper rod	**£520.3m**	£594.6m
Profit before taxation and before impairment provisions and goodwill amortisation	**£20.4m**	£29.9m
Profit before taxation after impairment provisions and goodwill amortisation	**£7.9m**	£27.7m
Earnings per share before impairment provisions, goodwill amortisation and exceptional items	**10.1p**	16.0p
Earnings per share, basic and fully diluted	**3.6p**	12.2p
Ordinary dividends per share	**10.05p**	10.05p

CHAIRMAN'S STATEMENT

John Newman
Executive Chairman

The automotive industry is a growth area for electronic components; our sensor and systems sales grew by 6 per cent this year, and are expected to grow by 25 per cent by the year 2005. TT electronics will continue its policy of looking to the future and developing new products in line with the needs of the marketplace.

TT electronics' turnover for 2002 was £520.3 million compared with £630.7 million on continuing activities (including ceased activities being £36.1 million of copper rod) and total turnover of £657.9 million in the previous year. Profit before taxation prior to amortisation of goodwill and impairment was £20.4 million (2001 – £29.9 million). Amortisation and impairment of goodwill amounted to £4.7 million (2001 – £2.2 million) which included the write off of the balance of goodwill arising on the purchase of Prestwick Circuits Limited in 1999. A plant and machinery impairment provision of £7.8 million has been made due to the continuing losses of certain of our businesses supplying telecom related industries.

Earnings per share before impairment provisions, goodwill amortisation and exceptional items were 10.1p compared to 16.0p. Basic and fully diluted earnings per share were 3.6p (2001 – 12.2p). The taxation charge of 27 per cent (2001 – 27 per cent) is a combination of a charge on current trading and the benefit of deferred taxation relief on impairment provisions.

Net borrowings of the group have been kept firmly under control, which has enabled the group to continue to invest in its manufacturing facilities and at the same time follow a strong dividend policy. Total net indebtedness at the year end was £55.8 million compared with £63.5 million at the previous year end.

I mentioned in my half year statement that the Board's decision to maintain skill levels in our telecom related businesses would be kept under review. In the light of the uncertainty of demand from the telecom industry over the next two years, the Board subsequently decided that the reorganisation of certain businesses was necessary. As a result, the United Kingdom manufacture of ferrites has ceased and has been transferred to our Indian facility as will a range of ferrites from our USA factory, whose operation has been significantly reduced. Our printed circuit board production has been successfully consolidated into one factory. In addition to incurring these associated reorganisation charges, redundancy costs where employee numbers have been reduced as the result of manufacturing efficiency savings have been incurred as a normal ongoing cost of the business.

The automotive industry is a growth area for electronic components; our sensor and systems sales grew by 6 per cent this year and are expected to grow by 25 per cent by the year 2005. This improvement in sales comes from the introduction of new automotive models. 2003 will show a lower increase in sales for whilst we have had a strong order intake, these orders will provide us with further growth for 2004 onwards. The telecom and computer markets would appear to have bottomed and are likely to remain at these depressed levels throughout the year.

Our policy to strengthen our existing businesses by making suitable acquisitions is being pursued. On 14 March, the assets of Demo Tableaux de Commande SA with a book value of £5.5 million were purchased for £2.5 million. Demo has a factory in Le Mans, France and a small assembly operation in Brazil. Demo manufactures climate control units, their products are designed into a number of European cars, including Renault, Peugeot and Citroen. Demo products being electromechanical complement our electronic based climate control businesses in the United Kingdom and USA. As the demand for additional features grows, our in-house expertise and technology will benefit our customers and enhance our turnover.

Our efforts to maximise the value of our investment in Johnston Group PLC were successful and we sold our shareholding for 425p per share compared with a market price of 345p. The sale generated £10.6 million of cash and a profit on disposal of £1.2 million.

We continue to create a total TT electronics identity for all the businesses within the group. An initial step has been the creation of TT electronic manufacturing services Limited, which is the combination of AB Electronic Assemblies Limited and Welwyn Systems Limited, our contract electronic manufacturing businesses. Further name changes, binding our companies together, will take place during this coming year.

The strong balance sheet and low borrowings of the group, gives the Board the confidence to recommend a final dividend of 6.36p per share. This brings the total dividend for the year to 10.05p, the same as last year. The dividend will be paid to shareholders on the register on 16 May and will be payable on 29 May 2003.

I would like to thank all the employees of the group for their efforts during a difficult year and I look forward to them benefiting in the future from a strongly established TT electronics group.

It would appear that overall demand in the marketplace for our products in the current year is likely to be no better than last year. TT electronics will continue its policy of looking to the future and developing new products in line with the needs of our customers.

John Newman

John W Newman
Executive Chairman
17 March 2003

GROUP OVERVIEW

Markets

- ■ Automotive
- ▲ Telecom and Computers
- ● Aerospace and Industrial
  - Defence
  - Medical
  - Consumer
  - Instrumentation

ELECTRONIC SECTOR

SENSORS AND ELECTRONIC SYSTEMS		ELECTRONIC COMPONENTS		MAGNETICS	
PRODUCTS					
Pedal sensor modules	■	Resistors and resistor networks	▲ ● ■	Inductors and chokes	▲ ● ■
Throttle position sensors	■	Resistor capacitor diode networks	▲ ● ■	Transformers	▲ ● ■
Engine management sensors	■	Blower motor resistors	■	Ferrites and laminations	▲ ● ■
Mass airflow sensors	■	Ignitor chip resistors	● ■	Ferrite beads and toroids	▲ ● ■
Steering sensors	■	Headlight power hybrids	■	Magnets	▲ ● ■
Chassis position sensors	■	Hybrids and microcircuits	▲ ● ■		
ABS sensors	■	Potentiometers and trimmers	▲ ● ■		
Pressure sensors and switches	● ■	Switches	▲ ● ■		
Climate control systems	■	Printed circuit boards	▲ ● ■		
Body control systems	■				
GLOBAL OPERATIONS					
United Kingdom, Germany, Austria, Ukraine, USA, Mexico		United Kingdom, Austria, USA, Mexico, Barbados, Malaysia, Singapore, Japan, Germany, France, Italy		United Kingdom, USA, India, Malaysia, China	
TURNOVER					
£139.0 million		£148.8 million		£17.8 million	
APPLICATIONS					
Cars, trucks and sports utility vehicles, industrial equipment and white goods		Telecom, computers, automotive, aerospace, medical and industrial equipment, consumer and white goods		Telecom, computers, aerospace, medical and industrial equipment, consumer and white goods	
MAJOR CUSTOMERS					
BMW	DaimlerChrysler	Airbus	Alcatel	ABB	Apple
Delphi	Ford	Boeing	Cisco	Compaq	Dell
General Motors	Rover	Ericsson	Nortel	IBM	Intel
Valeo	VW/Audi	Siemens	Visteon		

ELECTRICAL SECTOR

	ELECTRONIC MANUFACTURING SERVICES	POWER GENERATION	POWER AND DATA TRANSMISSION
PRODUCTS	PCB assemblies ▲ ● ■ Finished box build ▲ ● ■ Circuit layout design ▲ ● ■	Continuous power generation ▲ ● Standby power generation ▲ ● Aircraft ground power units ● Uninterruptible power supplies ▲ ●	Power and data transmission cables ▲ ● Sub-sea cables ▲ ● Power transmission accessories ▲ ● Electrical connectors ● Insulation technology ▲ ●
GLOBAL OPERATIONS	United Kingdom	United Kingdom, Mexico	United Kingdom, USA, South Africa
TURNOVER	£43.4 million	£52.7 million	£118.6 million
APPLICATIONS	Telecom, computers, automotive, industrial equipment and white goods	Banks, public and commercial buildings, hospitals, airports, telecom base stations and general industrial	Power utilities, building and civil construction, electrical support systems, railways, mining and general industrial
MAJOR CUSTOMERS	BAE Systems BT Fuji Harris Marconi Panasonic Toshiba Ultra	British Airways Cable & Wireless Halliburton Hyundai Ministry of Defence Mobile One Railtrack T-Mobile	Alstom Balfour Beatty China Light & Power Crown Agents London Underground Scottish Power Shell Southern Electricity

CHIEF EXECUTIVE'S REVIEW

Sheridan Comonte
Chief Executive

Our investment over the years in new electronic products for the automotive industry has ensured continued growth in this market. Over the last 18 months we have done much to reduce headcount and costs, merged and relocated more of our manufacturing to low labour cost areas to reduce unit costs and increased our efforts to develop new markets. We feel confident that we have the right organisation and skills to maximise future opportunities in our various markets.

Factory expansion

2002 marked the third factory expansion, of our German operation, since it joined the group. This new facility includes a clean room for the production of specialised customer specific components.

The chassis height sensor is manufactured at this location using fully automated production lines.

Overview

Our investment over the years in new electronic products for the automotive industry has ensured continued growth in this market during the year contrasting with the very depressed demand from the telecom market, which failed to make any recovery throughout the year.

Our strategy over this period, and which will remain for the foreseeable future, has been to continue to invest both in product development and capital expenditure to service the group's marketplaces and in particular the automotive sector, as well as other markets we are developing such as medical and aerospace, where sales growth can be increased with an acceptable return on capital employed. A tight control on costs, including headcount reductions of a further 8 per cent during the year and factory mergers, have been undertaken where there is exposure to depressed markets such as telecom and computers.

This strategy has ensured that the group has continued to be cash generative, with a strong balance sheet and is well positioned to take advantage of market opportunities when the World economies recover.

The group's businesses

The group develops, sells and manufactures a range of electronic, electromechanical and electrical products using our core technologies. Our customers include many of the major worldwide original equipment manufacturers, Tier 1 automotive system suppliers, electronic manufacturing services companies, specialist distributors in the automotive industry, telecom, computer and general industrial businesses including aerospace, medical and utilities.

Whilst a United Kingdom based plc, TT electronics is an international business with factories and technical sales operations in 18 countries which enables us to service our global customers' needs at cost competitive prices. A central part of the group's philosophy is to develop a lasting relationship with selected customers as the majority of the products sold are customer specific rather than standard.

Manufacturing

We are a global manufacturing company and have developed a considerable expertise by utilising best manufacturing principles gained from different countries' management teams. It is important that, as new products are designed, the development engineers and the production and process engineering teams integrate their efforts so that products can be manufactured efficiently on cost effective automated equipment which repetitively produces identical quality product. Developing automated production equipment is as important as the product itself and we have adopted the principle of planning the manufacturing process and then designing the equipment which is constructed by outside specialists or using in-house expertise.

In many cases our customers prefer that we manufacture relatively close to their main assembly plants to minimise lead times and transport costs between sites. Where this is not practical due to a high labour content or small runs not suitable for automated equipment there is a growing trend to utilise one of our manufacturing units in low labour cost countries such as Mexico, Malaysia, India and Barbados as well as our recently established assembly operation in the Ukraine.

Moving to low cost areas

TT electronics' policy is to manufacture using the most cost effective methods. Where the products have a high labour content manufacturing is transferred to one of our low labour cost factories. During 2002 we have successfully transferred the production of our range of ferrite cores from the United Kingdom to a sister factory in India.

Customer partnerships

Forming strategic partnerships is core to ensuring the development of the group's sales growth. These partnerships are established by close working relationships with our customers' engineers thereby ensuring that our technologies are incorporated into their product offering. The design of complex climate control units is an example of this close co-operation.

Once the manufacture of a product has started, teams of specialists including our operatives, use modern manufacturing methodologies, such as the Toyota Lean Manufacturing principles, Six Sigma and Kaizen, to minimise scrap and produce products 'right first time' which eliminates costly rework activities.

Computerised factory planning systems are essential for effective control of raw materials, machine loadings and inventories. The group has invested and continues to invest in systems which help drive down manufacturing costs, reduce unit prices and ensure that we meet our customers' expectations for 100 per cent on time delivery.

It is not possible to compete in our marketplaces without manufacturing the highest quality products. Many of our factories surpass the quality requirement of ISO9000 and are now achieving the new global standard of ISO/TS16949.

Product development

The group relies on product development, for the future growth of our business and the design and continuous development of new products is a key strength. However, it is unusual for the group to develop new products in isolation and our practice is to work closely with our customers to provide solutions to their engineering challenges which enhance their product offering.

This way of working is reliant on long-term relationships or strategic partnerships with all levels of our customers' management teams from design and development engineering, purchasing departments, process engineering and administrative functions.

Each of our main business units specialises in a particular technology or technologies and is responsible for achieving their new product developments. Regular interaction between the business units ensures that innovations are shared, design effort does not overlap and resources are not wasted.

Electronic sector

Automotive market – represents 59 per cent of the electronic sector turnover

The *automotive industry represents* the largest marketplace for our electronic components and systems and over 50 per cent of all cars manufactured in Europe and North America contain at least one of our manufactured products. Our customers include the World's largest car manufacturers, Tier 1 system suppliers as well as smaller specialist suppliers.

Some years ago we identified the growth in automotive electronics as an ideal marketplace for our technologies. Growth of automotive electronics has been at the rate of 6 per cent per annum in recent years and is expected to remain at this rate over the next five years. By focusing and expanding on our key technologies the group has since 1998 increased its automotive sales by 70 per cent. The growth of the group's automotive sensors and electronic systems for 2002 was 6 per cent but has been offset by reduced sales of PCBs and laminations to Tier 1 suppliers. We have been successful in winning new contracts for the automotive electronics businesses which were in excess of £180 million in 2002. These will provide sales growth over the next few years at currently forecast car production levels.

The growth in automotive electronics is driven by a combination of factors; legislation which continues to reduce exhaust emissions thereby producing less pollutants and improving fuel consumption; safety legislation and safety innovation to reduce road deaths and injuries and demand from customers for *additional comfort for driver and* passenger, such as improved climate control and in-car entertainment.

The automotive industry is highly competitive and uses innovative engineering. However, once a component or system has been specified for a new car platform the contract is most likely to last around five

Award winning products

The electronic accelerator pedal module developed using our patented Hall effect technology is an important feature of the drive-by-wire system. This replaces the traditional throttle linkages by transmitting the driver's pedal inputs to the engine electronically rather than mechanically.

This product has received the Society of Plastic Engineering award for outstanding innovation.

All current models of Mercedes Benz and BMW cars, including the award winning Mini *and the new Rolls Royce, use our system.*

years, albeit with contracted price reductions. This enables appropriate product specific automated equipment to be utilised and depreciated over the product life, the cost effective long-term material supply to be negotiated and an in-depth training of operatives.

Our range of automotive products includes rotating and position sensors, temperature and pressure sensors, climate control modules, switches and body electronics, hybrid circuits, trimmers, resistors and printed circuit boards. Our contacting and contactless sensor technologies were originally adopted for 'drive, brake and steer-by-wire' applications on German luxury cars such as Mercedes Benz and BMW. These products are now used on a wide range of cars and continue to be designed in on new model platforms. We are currently producing over 11,000 units per day of our award winning accelerator pedal modules. We were the innovator of the chassis height sensor starting with the Range Rover model and now our chassis height sensors are used to improve comfort and safety as well as load levelling in conjunction with 'high intensity discharge headlights'. TT electronics now produces over 20,000 units per day for cars assembled in Europe and America. We have just completed the third extension to one of our German factories in the last five years to house the production equipment to service this growth.

One of our businesses in South Wales specialises in the design and manufacture of complex climate control systems which can take up to 12,000 man hours to develop utilising the latest sophisticated integrated design and production engineering computer systems. Success with this product range, particularly with American car manufacturers, drove the decision three years ago to manufacture climate control products in our automotive factory in North Carolina where the number of units assembled has risen from 45,000 units in 1999 to 408,000 units in 2002.

Automated production

The group engineers products so that they can be manufactured in the most economical way utilising automated production lines. An example is the steering sensor which had originally been designed for manual assembly in a low labour cost area. When TT electronics acquired this business in 2000 the sensor was redesigned. It now incorporates enhanced features, and is manufactured on an automated production line. This has reduced the labour content by 60 per cent and improved product quality.

Telecom market – represents 11 per cent of the electronic sector turnover
Much publicity has been given over the last two years to the implosion of the telecom industry which has left the World's leading service providers and equipment manufacturers struggling for survival. One of the group's major and long established marketplaces for many years was the World's leading telecom and internet equipment manufacturers such as Ericsson, Siemens, Lucent, Nortel, Alcatel and Cisco who continue to report falling sales to this market.

In the peak telecom year of 2000, the group sold £86 million of products into this market as against £38 million in 2002. This unprecedented low level of demand continued throughout 2002 despite the earlier consensus of expectations that the market would recover during the latter part of last year. A major feature holding back the recovery was the high stocks of finished goods and components held by our customers. It is reported that much of this stock has been consumed which should open the way for increasing sales as service providers' demand returns to normality.

Those of our operations which had a heavy bias to telecom products were particularly badly affected and considerable headcount reductions and reorganisation have taken place. These include the closure of our United Kingdom based ferrite manufacturing plant with the production being moved to the group's operation in India.

Our products based on thick and thin film hybrid circuits and resistive technologies are used in a wide range of applications such as switching for fixed line, mobile base stations as well as fibre optic systems. Many of our components are used in internet infrastructure equipment such as servers and routers as well as in communication satellites. Despite the low demand for our products our development engineers continue to work with our customers on the next generation designs to win sales as the market recovers.

Computer market – represents 8 per cent of the electronic sector turnover
The majority of the World's leading computer manufacturers use our electronic components in their products. The lower level of production of computers in 2002, together with component stocks still filling the supply chain, reduced demand for our resistors, inductors, transformers, ferrite cores and filters, with sales to this market dropping from £62 million in 2000 to £28 million in 2002. Forecasts predict a slight upturn in computer sales in 2003 which will be beneficial if these predictions materialise. We have maintained our technical sales and application engineering staff and also opened up a sales office in southern mainland China to service customers better who have moved their production to this area making China one of the major electronic manufacturing centres of the World. We continue to develop products applicable to the next generation of PCs and laptops which should be launched into the market during 2003.

Innovative products

TT electronics has developed in the USA for one of the largest mould press manufacturers in the World, a mould heater nozzle utilising our "thick film on steel" resistive technology.

This successful joint development has achieved the initial goal of an "easy on, easy off" nozzle. Other benefits include improved reliability and yields as well as 25-30 per cent energy saving.

Potential new markets

Modern day medical technologies utilise advanced electronics. TT electronics is addressing this growing £1.0 billion market.

The group has developed specialised ultra reliable products for use in defibrillators, pacemakers, MRI scanners and a range of diagnostic equipment.

Industrial market – represents 22 per cent of the electronic sector turnover
Due to the major downturn in the telecom market we have been working hard to increase sales into the industrial market. This has required a redirection of our engineering focus and product development to meet the challenges of this market which is large overall, but diverse and very fragmented and is represented by numerous companies ranging from global original equipment manufacturers to small family owned businesses.

Whilst we have had successes in this market it has been difficult due to the weak demand in a number of sectors, notably aerospace and control instrumentation. Our focus on the medical market has won us orders for components into defibrillators, pacemakers and a range of diagnostic equipment and we expect this to continue to grow. Our electronic manufacturing business has won a contract worth £20 million over the next four years for sub-assemblies for use in high frequency radio systems for the Ministry of Defence Bowman programme.

Electrical sector
Power generation – represents 31 per cent of the electrical sector turnover
Our businesses in the United Kingdom and Mexico design and build electrical power generating units of between 50 and 2000KVA for both standby and continuous power generation. We export generator sets to Africa, the Middle East, China and the Far East, Central and South America.

The global market for power generation declined by 12 per cent in 2002 causing stiff competition. We commenced delivery of a large contract worth £5.8 million that was won at the end of 2002 for an oil project in North Africa. This proved to require a more stringent specification than was anticipated and has utilised more engineering time than had been planned thus reducing our margin. On the positive side the group's operation based in Mexico achieved another excellent year of profit and our uninterruptible power supply business in the United Kingdom, which has been suffering from the downturn in telecom, won a substantial contract for equipment for the new generation 3G base stations in Singapore. Our ground power generation company which manufactures units for airlines and airports suffered from the substantial cut back on capital expenditure in this industry. We were, however, successful in winning an order worth £4.3 million spread over three years for airstart units for the Ministry of Defence. The harsh environment connector business also won a contract ultimately for the Ministry of Defence for output panels, harnesses and connectors for field power systems worth £7.7 million over a three year period.

Power transmission – represents 69 per cent of the electrical sector turnover
Whilst these businesses improved their performance in 2002 the lack of an expected large sub-sea cable contract was disappointing but we now anticipate the contract for which our cable has been

specified, to be placed in late 2003. The cable industry is still suffering from over-capacity with competitive pricing from Eastern European countries. However, our cable accessories and specialist compound businesses again produced good results. Some time ago we identified that off-shore wind farms, which the Government are partially funding as sources of renewable energy, would require our specification of sub-sea cable and late last year we won a contract worth £3.2 million which will be delivered in the first half of 2003.

Outlook

We expect 2003 to be a demanding environment in which to grow our sales. Over the last 18 months we have done much to reduce headcount and costs, merged and relocated more of our manufacturing to low labour cost areas to reduce unit costs and increased our efforts to develop new markets. We feel confident that we have the right organisation and skills to maximise future opportunities in our various markets.

Sheridan W A Comonte
Chief Executive
17 March 2003

Ready for new technology

The group's specialist uninterruptible power supply operation has added to its product range by developing a modular, dc power system. This has been successfully sold to Mobile One in Singapore for the roll-out of its 3G system for mobile telephony. Other customers in the United Kingdom, Hungary and Thailand are also planning to use our latest technology to achieve the greater functionality required for the latest infrastructures.

Roderick Weaver
Finance Director

FINANCIAL REVIEW

Business performance

The group's turnover for the year from continuing activities was £520.3 million, (2001 – £630.7 million). Operating profit generated from continuing activities totalled £22.4 million (2001 – £36.7 million) before impairment provisions and goodwill amortisation of £12.5 million (2001 – £2.2 million).

The electronic sector turnover of £349.0 million (2001 – £399.6 million) was seriously affected by the continuing low levels of demand in the telecom and computer marketplaces, which was partially offset by strong demand from automotive customers. The sales of electronic components and magnetics which are more sensitive to demand from telecom customers were £166.6 million (2001 – £209.7 million) a reduction of £43.1 million. The excess manufacturing capacity together with price pressure from the Far East impacted on the results of the printed circuit board business. The electronic manufacturing services business was also affected, turnover reducing to £43.4 million in 2002 (2001 – £58.9 million), which was mainly caused by a major customer taking work back in house. The automotive electronic sensors and systems business continues to be successful and achieved a growth in turnover of 6 per cent to £139.0 million (2001 – £131.0 million). This sector's operating profit of £15.7 million (2001 – £32.9 million) before goodwill amortisation and provision for impairment was adversely affected by the overall turnover reduction and reduced margins as a result of the lower telecom turnover which has above average margins.

The electrical sector turnover was £171.3 million (2001 – £231.1 million). The majority of this reduction resulted from the closure of the copper rod manufacturing operation whose sales were £36.1 million in 2001 and £nil in 2002. The power systems businesses' turnover was £52.7 million (2001 – £60.0 million) resulting from a depressed World market for diesel generating sets. The power transmission operations' turnover was £118.6 million (2001 excluding the effect of closures and disposals – £135.0 million). Margins benefited from the cost reduction actions taken in 2001 and good performances from the businesses supplying compounds and cable accessories. The operating profit for the electrical sector improved to £6.7 million (2001 – £3.8 million).

Impairment of fixed assets

The group has reviewed its operations in the light of the weak demand in the telecom and computer markets and the increasing competition from low labour cost locations. This has led to production being transferred to the group's low labour cost factories. There are however, certain manufacturing processes which are impracticable to transfer and in these cases factory outputs have had to be reduced. This has led to under-recovery of overheads and in some circumstances to losses which in turn lead to the need to make impairment provisions in order to reduce the carrying value of fixed assets to their recoverable amount. Impairment provisions totalling £7.8 million have been made against the carrying value of tangible fixed assets; these are in respect of the ferrite, lamination and printed circuit board businesses. The goodwill which arose on the acquisition in 1999 of Prestwick Circuits Limited, the printed circuit board manufacturer, has also been fully written off. These charges together with the amortisation of goodwill are disclosed separately in the consolidated profit and loss account.

Exceptional items

In December 2002 the investment in the shares of Johnston Group PLC was sold for £10.6 million, which generated a profit of £1.2 million. In line with the requirements of FRS 3 this profit is reported as an exceptional item in the consolidated profit and loss account.

Interest charge

The interest charge was £3.2 million (2001 – £6.1 million). The reduction is due to a combination of lower interest rates, particularly in respect of US dollar borrowings, and the full year effect of the current funding arrangements. Since June 2001 the majority of sterling borrowings have been at interest rates between 3.9 per cent and 5.7 per cent. These borrowings replaced the loan which was at a fixed rate of 11.4375 per cent. An average interest rate of 2.9 per cent has now been fixed to June 2004 on US$65 million of borrowings. Other interest charges are mainly on UK borrowings typically from 0.5 to 1.0 per cent above money market rates.

Taxation

The group has adopted FRS 19 and has now fully provided for deferred taxation. The amount of deferred taxation unprovided at the end of 2001 was £0.6 million and the effect of this change in policy has been included in the total tax charge for 2002 as it was not considered sufficiently material to require a prior year adjustment.
The effective taxation charge on profits was 27 per cent (2001 – 27 per cent) and is lower than the natural rate of tax due to the utilisation of losses and a tax efficient corporate structure.

Cash flow and borrowings

The cash generated from operations totalled £42.6 million (2001 – £76.6 million) and reflects the group's constant monitoring and strict control over working capital. Capital expenditure amounted to £26.5 million (2001 – £35.4 million) and included a new factory in Germany to house the expanding automotive electronic sensor business. Other significant items of cash flow were the proceeds from the sale of the shares in Johnston Group PLC of £10.6 million, tax paid of £2.9 million (2001 – £7.4 million) which was mainly in respect of overseas profit and net interest paid of £3.2 million (2001 – £8.1 million).

The total net debt at the end of December 2002 was £55.8 million (2001 – £63.5 million) and gearing reduced to 27 per cent (2001 – 29 per cent).

Dividends

In light of the strong balance sheet and good cash generation the Board proposes that the final dividend is held at 6.36p per share, giving a total dividend of 10.05p per share (2001 – 10.05p per share). This dividend is covered by the earnings before goodwill amortisation and impairment provisions but is not covered by earnings after these provisions. These provisions do not affect cash flow and the Company has sufficient distributable reserves to enable it to pay the recommended final dividend.

Treasury and foreign currency

The group's treasury function is controlled centrally. Three clearing banks in the UK provide overdraft and ancillary facilities and a mid-term unsecured £50.0 million loan facility which matures in June 2006. There are also appropriate facilities with local clearing banks in each of the other countries where the group has a significant presence.

The group's policy is to reduce the risk of the effect of movements in foreign currency exchange rates by hedging transactions and obligations by means of forward currency contracts, and to hedge the translation of certain non-sterling assets and profit streams by use of matched borrowings and forward currency contracts. There are no off balance sheet borrowing arrangements and derivatives are used only to minimise risk of price fluctuations in key raw materials, changes in foreign currency exchange rates and interest rates.

Pensions

The group has not adopted FRS 17 for pensions accounting but has made the appropriate transitional disclosures in note 33 to the accounts. The equity markets have fallen dramatically since December 2001, the FTSE100 having dropped by 26 per cent since that date. This fall in the market value of equities as measured at December 2002 has widened the shortfall between the pension funds' assets and their liabilities. The group has closed its defined benefit schemes to new members and is planning to increase both employee and employer contributions to address this shortfall over the coming years.

Risk management

The policy of maintaining strict financial control has been adhered to by the group for several years. There is a detailed examination of internal control and external audit procedures by the audit committee twice a year and the Board as a whole regularly undertakes formal reviews of all significant risks to which the group is exposed during the course of its operations.

Roderick W Weaver
Finance Director
17 March 2003

DIRECTORS AND COMPANY SECRETARY

John W Newman
Executive Chairman (57)
Appointed to the Board in 1986.
A Chartered Accountant who is also Chairman of Send Group plc and the Newship Group of companies.

Sheridan W A Comonte
Chief Executive (64)
Appointed to the Board in 1987.
Previously an executive Director of Newship Group Limited.

Roderick W Weaver FCA
Finance Director (52)
Appointed to the Board in 1995.
A Chartered Accountant who was previously with AB Electronic Products Group PLC.

James W Armstrong
Corporate Development Director (55)
Appointed to the Board in 1998.
A Chartered Accountant previously with Newship Group Limited.
Joined TT electronics plc in 1988.

Martin G Leigh ACMA
Group Company Secretary (58)

David E A Crowe
Non-executive Director (63)
Appointed to the Board in 1993. Served as an executive Director to 30 April 2000 and is now a non-executive Director. Previously a senior partner of Gouldens – Solicitors.

Timothy H Reed
Non-executive Director (62)
Appointed to the Board in 1973. Non-executive Chairman from 1974 to 1995. Previously a senior partner of DLA – Solicitors. Also a non-executive Director of a number of private companies.

Mark S Evans
Non-executive Director (69)
Appointed to the Board in 1997. Formerly a Director of Credit Lyonnais Laing. Currently a Director of Merrill Lynch European Investment Trust PLC and Heavitree Brewery PLC.

Sir Laurence Magnus
Non-executive Director (47)
Appointed to the Board in 2001. An investment banker, Vice Chairman of Lexicon Partners, non-executive Chairman of Xchanging ins-sure Holdings Limited and a non-executive Director of The J.P. Morgan Fleming Income & Capital Investment Trust plc.

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements for the year ended 31 December 2002.

Business review The operational and financial reviews are set out on pages 6 to 15 of this Annual Report and should be read as part of the Directors' report.

Activities TT electronics plc is a holding company providing management services to the group. The principal operating subsidiaries, which are listed on page 56, operate in the electronic and electrical sectors.

Results The group's profit on ordinary activities before taxation was £7.9 million (2001 – £25.8 million). The audited financial statements of the group are set out on pages 26 to 52.

Fixed assets No professional valuation of land and buildings has been carried out during the year, but in the opinion of the Directors the market value, on an existing use basis, is considered to be not materially different from net book value.

Research and development The group carries out research and development in order to develop new products and processes and to substantially improve existing products and processes.

Ordinary dividends The Directors recommend a final dividend of 6.36p per share (2001 – 6.36p) to be paid on 29 May 2003 to ordinary shareholders on the register at 16 May 2003 which, together with the interim dividend paid on 31 October 2002, makes a total of 10.05p for the year (2001 – 10.05p). After this distribution of £15.6 million, there is a retained loss of £10.0 million to be taken from group reserves.

Future prospects The future prospects of the group are referred to in the Chairman's statement and Chief Executive's review set out on pages 3 and 13 respectively.

Directors M J Mallett, who retired on 8 May 2002, and the Directors set out below held office during the year.

In accordance with the Articles of Association, S W A Comonte, R W Weaver and M S Evans retire by rotation. Messrs Comonte, Weaver and Evans being eligible, offer themselves for re-election.

Directors' interests The Directors of the Company held beneficial interests in the following numbers of the Company's ordinary shares of 25p each on 1 January 2002, 31 December 2002 and 7 March 2003:

	31 Dec 2002 and 7 Mar 2003 Ordinary shares	1 Jan 2002 Ordinary shares
J W Newman	16,112,627	16,112,627
S W A Comonte	64,500	64,500
R W Weaver	12,500	12,500
J W Armstrong	14,582	14,582
T H Reed	118,634	118,634
M S Evans	20,000	20,000
D E A Crowe	48,454	48,454
Sir Laurence Magnus	16,685	16,685

The following Director of the Company held non-beneficial interests in the following numbers of the Company's ordinary shares of 25p each on 1 January 2002, 31 December 2002 and 7 March 2003:

	31 Dec 2002 and 7 Mar 2003 Ordinary shares	1 Jan 2002 Ordinary shares
J W Newman	10,182,437	10,182,437

The ordinary shares in which J W Newman held a non-beneficial interest comprised part of the holding in which he held a beneficial interest.

Share capital The share capital during the year and the number of ordinary shares reserved for issue are shown in note 25 to the financial statements.

Annual General Meeting The Notice of the Company's 2003 Annual General Meeting is set out on pages 54 and 55.

Resolutions will be proposed at the Annual General Meeting to renew for a further year the authority of the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over ordinary shares for cash up to a maximum nominal amount representing 5 per cent of the issued ordinary share capital without first making a pro rata offer to all existing ordinary shareholders.

A resolution will be proposed authorising the Company to make market purchases of its own shares of up to 10 per cent of the issued ordinary share capital. The Company will only make purchases of its own shares if the Directors are satisfied that it would be in the best interests of the Company to do so and that such purchases would result in an increase in the earnings per share attributable to ordinary shareholders.

A resolution will be proposed to approve the Directors' remuneration report for the year ended 31 December 2002.

Substantial shareholdings At 7 March 2003 the Company had been notified of the following disclosable interests which represented 3 per cent or more of the existing issued ordinary share capital:

	Number	%
J W Newman[1]	16,112,627	10.4
Tweedy, Browne Company LLC	10,854,129	7.0
Newship Industries Limited[1]	10,182,437	6.5
Newship Investments Limited[1]	9,903,250	6.3
FMR Corp[2]	7,038,429	4.5
Legal & General Investment Management Limited	4,776,549	3.1

[1]The TT electronics shares in which Newship Industries Limited is interested are, as to 9,903,250 such shares, the same as those in which Newship Investments Limited is interested and comprise part of the holding of TT electronics shares in which J W Newman is interested.

[2]FMR Corp, Fidelity International Limited and Edward C Johnson 3d have notified an interest in the same shares.

So far as can be ascertained no other person or corporation holds or is beneficially interested in any substantial part of the share capital of the Company.

Charitable donations During the year the group contributed £50,000 (2001 – £50,000) for charitable purposes. There were no political contributions.

Employees Every company in the group is encouraged to develop and implement employment policies and remuneration schemes, which are designed to identify employees with that company's achievements and the ways by which their knowledge and skills can best contribute towards its success. The Directors recognise the importance of employee involvement throughout the group and this is fostered by the development of communications through the normal subsidiary company reporting procedures. The group gives equal opportunities to disabled persons whenever possible, both in recruitment and career development.

Auditors A resolution will be proposed at the Annual General Meeting to reappoint Grant Thornton as Auditors to the Company and to authorise the Directors to fix their remuneration.

Corporate governance The group has complied throughout the year with the provisions set out in Section 1 of the Combined Code.

The Board aims to achieve high standards of corporate governance. It recognises that shareholders require leadership and control of the Company to accord with those standards.

The Board of TT electronics plc currently comprises the Executive Chairman, the Chief Executive, the Finance Director, the Corporate Development Director and four non-executive Directors. The non-executive Directors, with the exception of D E A Crowe, are considered by the Board to be independent of the Company's management and free from any business or other relationship which could interfere with the exercise of their independent judgement. The Board meets every other month and has adopted a schedule of matters specifically reserved to itself for decision. Strategies proposed by the executive Directors are fully discussed at Board meetings. Discussions on all matters at Board meetings are based on timely distribution of written information to all Directors.

J W Newman, as Executive Chairman, takes the leading role in strategic planning. He is also primarily responsible for liaison with the Company's institutional investors and relationships with the group's bankers.

J W Newman, S W A Comonte and R W Weaver meet institutional investors immediately after publication of the annual and interim results. They are also available at other times to enter into dialogue with institutional investors. Information provided at these meetings together with financial press releases are available on the group's website. The Annual General Meeting is used to communicate with private investors.

S W A Comonte, the Chief Executive, is responsible for the running of the group's operating companies.

T H Reed, M S Evans, D E A Crowe and Sir Laurence Magnus, the four non-executive Directors, bring a strong and independent element to the Board. They contribute to the testing and maintenance of the corporate governance of the group. T H Reed has been designated senior independent Director.

A Remuneration Committee and an Audit Committee which report to the Board have been established. Each comprises the four non-executive Directors: T H Reed, M S Evans, D E A Crowe and Sir Laurence Magnus. T H Reed is the Chairman of both Committees. The duties of the Audit Committee include keeping under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the Auditors, reviewing any changes in accounting policies and practices, major judgmental discussions affecting interim and annual results and compliance with accounting standards and with the Companies Act, and considering the Auditors' comments on internal controls and management's response. The Audit Committee also keeps under review the nature and extent of non-audit services provided by the Auditors.

When a Board appointment is to be made, possible candidates are discussed by all Directors before any approach is made to any candidate. The decision to make a Board appointment is made by the full Board in the light of such discussions.

All Directors are subject to re-election every three years and, on appointment, at the first Annual General Meeting after appointment.

Review of principal risks and internal controls The Directors acknowledge that they are responsible for the group's systems of internal control and for reviewing their effectiveness. In accordance with the guidance of the Turnbull Committee on internal controls the Board has identified and set out procedures for managing risks faced by the group. These procedures have been in place for the full financial year and up to the date the financial statements were approved. The risk management procedures and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the group's strategic objectives. It should be recognised that such systems can only provide reasonable and not absolute protection against material misstatement or loss.

Risk management and evaluation takes place as part of the annual budget preparation cycle and the monthly management meetings of operating companies. Having identified the risks, each operating company then monitors and reviews them on a regular basis. The Board reviews at each Board meeting the current position. A further review is carried out twice annually by the Audit Committee.

The group's internal control manager monitors, via an established reporting procedure, the risks set out in the register of principal business risks.

The group is committed to a policy of maintaining strict internal financial control over all its activities. Controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are properly authorised and that material errors and irregularities are either prevented or are discovered on a timely basis. The system of control itself is well established. It is reviewed regularly and enhanced to meet the requirements of the group's development.

Principal features of the system of internal financial control include:

- the Directors meet regularly as a Board to monitor financial performance and to maintain overall control of significant strategic and financial issues.

- the group is structured so as to enable each operating company to be an autonomous unit, but subject to the policies, rules and procedures determined by the Directors. The Directors exercise control over operating companies through senior executives who monitor and oversee the financial performance and controls of each operating company. The Directors of operating companies are held accountable for the effectiveness of the implementation and maintenance of controls within their companies. This provides constant and consistent management appropriate to a devolved structure.

- the group has detailed financial planning and reporting systems. Detailed management accounts are prepared monthly by each operating company comparing actual performance with budget. The financial performance of each operating company is subjected to detailed formal review at monthly meetings. An important aspect of these reviews is the early identification of potential business risks and agreement on suitable and prompt courses of action. Operating companies prepare strategic plans and annual budgets which are implemented following review and approval by the Directors.

- the group has comprehensive control and approval procedures which are rigorously enforced. There are clear definitions of appropriate authorisation levels. Capital investment and other major items of expenditure are made only after compliance with detailed appraisal procedures and, if above a set level, only with the approval of the Directors.

- accounting and reporting policies and practices require that the group's accounting records are prepared with consistency, accuracy and prudence.

- adherence to procedures is reviewed and supported by an internal control manager who reports to the Finance Director. The framework for maintaining control procedures is also monitored by the Audit Committee and the internal control manager.

- certain key functions, including funding, taxation, provision of legal advice, insurance and treasury are controlled at the group's head office and are monitored by executive Directors.

The Directors have reviewed the effectiveness of the system of internal control, during the period covered by the accounting year to 31 December 2002 and the period since then to the date of this report.

Supplier payments policy The group's policy in relation to the payment of its suppliers is to agree its terms of payment with each supplier when negotiating the terms of each business transaction. It is group practice to abide by the agreed terms of payment unless the supplier defaults under its own obligations. Trade creditors at the year end amount to 56 days of average supplies for the year (2001 – 45 days).

Environmental policy Companies in the group adopt a responsible attitude towards the protection of the environment. The group strives to meet requirements of all applicable environmental laws and regulations, to improve continuously environmental performance and to contribute to long-term economic, environmental and social sustainability. Each site is encouraged to attain the latest quality accreditation (such as ISO 14001) where appropriate. Group companies develop energy efficient means of manufacture and seek to reduce, re-use and re-cycle waste and arrange for disposal of other waste responsibly.

Statement of Directors' responsibilities in relation to financial statements The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the group as at the end of the financial year and of the group profit or loss for the financial year.

The Directors in preparing the financial statements are required to use suitable accounting policies and to apply them consistently, to make reasonable and prudent judgements and estimates and to state whether the accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company and the group prepare and maintain accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the group at that time and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the group and to prevent and detect fraud and other irregularities.

Going concern The Directors confirm, after making appropriate enquiries, that they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. The Auditors' responsibilities are set out on page 25 and should be read in conjunction with this statement.

Approved by the Board on 17 March 2003 and signed on its behalf by

M G Leigh
Secretary

DIRECTORS' REMUNERATION REPORT

The Board submits its Directors' remuneration report for the year ended 31 December 2002. The following sections of the report have been audited: the table of Directors' remuneration together with the preceding paragraph; the table of Directors' share options and the table of executive Directors' pensions.

The Remuneration Committee which reports to the Board comprises the four non-executive Directors: T H Reed, M S Evans, D E A Crowe and Sir Laurence Magnus. T H Reed is the Chairman of the Committee.

Remuneration

The current remuneration policy was established by the Remuneration Committee following a review carried out by Inbucon, the Salary Research Group, commissioned by the Remuneration Committee. Inbucon have not provided any other services to the Company. The report, prepared in July 2001, found that the current rates of salary were at or about the current market levels when compared with organisations with similar market capitalisation. The survey compared the Directors' remuneration against a comparative group of twelve companies above and twelve below the Company's market capitalisation in the FTSE Electronic and Electrical sector and similar criteria in the FTSE 350. Since July 2001 salary increases have been limited to increasing in 2001 the remuneration of a then recently appointed Director into line where it had been slightly below the level in the Inbucon report or awarding increases in line with inflation and similar to the average award made to other group executives. It is envisaged that this policy will continue and it is likely that outside consultants will be asked for a report in the future.

The remuneration package provided to S W A Comonte includes an annual bonus that has been calculated on a pro rata payment of £10,000 for each *one million pounds of pre-tax pre-goodwill profit in accordance with the Company's management accounts above 90 per cent of the budgeted pre-tax* pre-goodwill profit for the year. R W Weaver and J W Armstrong are each entitled to a discretionary bonus determined by the Remuneration Committee. There were no bonuses paid or payable in respect of the profits earned in years to 31 December 2001 and 31 December 2002.

Set out below are tables of remuneration of the Directors who served throughout the year ended 31 December 2002 (except where stated). The amount of each element in the remuneration received by the Directors in the year including basic salary and fees and benefits in kind was:

	Salary/fees £000	Benefits £000	2002 Total £000	2001 Total £000
Executive Directors				
J W Newman	431	38	469	444
S W A Comonte	237	35	272	320
R W Weaver	177	18	195	205
J W Armstrong	137	19	156	160
Non-executive Directors				
T H Reed	32	–	32	31
M J Mallett (retired 8 May 2002)	8	–	8	24
M S Evans	24	–	24	24
D E A Crowe	24	–	24	24
Sir Laurence Magnus	24	–	24	12
	1,094	110	1,204	1,244

The value of benefits in kind received during the year comprised principally company car benefits and medical cover. No Directors received expense allowances during the year.

The fees in respect of M J Mallett were paid to Ayre Mallett and Company Limited.

Service contracts

The Company's policy is not to grant service contracts to executive Directors and that the executives should be satisfied with the working relationship and if dissatisfied, should be able to leave without restraint. Accordingly there are no service contracts and the notice periods amount to a maximum of three months for any executive Director. No termination payments arise under any contract.

Long-term incentive plan

On 9 September 1999 the Remuneration Committee established a long-term incentive plan for executive Directors and senior executives. The plan allows the participant, subject to a pre-exercise condition, to transfer up to 50 per cent of any bonus entitlements into a trust established by the Company. This would be used to purchase shares in the Company at market value, and be matched by a similar amount paid by the Company into the trust to buy a matching number of shares. The shares acquired by the contribution from the Company may not generally be transferred to the participant until the expiry of three years from the date of the matching award. At the date of this report there are no participants in the plan and it is not envisaged that there will be any participants in 2003.

Non-executive Directors

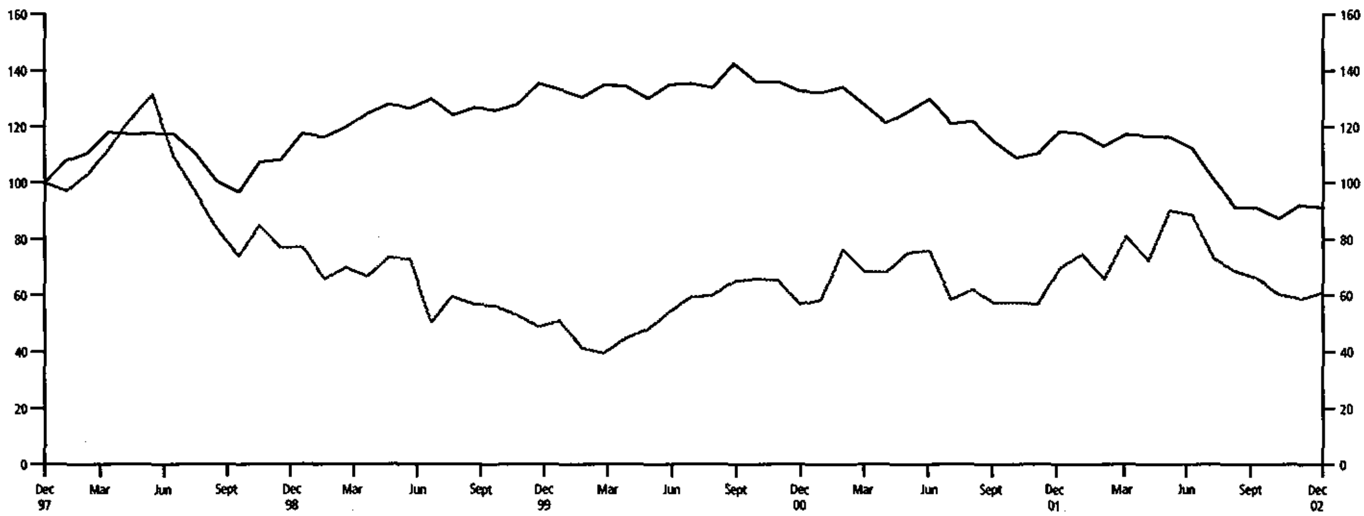
The Inbucon report found that non-executive Directors' fees within the group were comparable with current market levels and organisations. Since the date of the report, the fees have increased by the inflationary percentage payment applied to the executive Directors and other group executives. The remuneration of the non-executive Directors is decided by other members of the Board. No benefits in kind are provided for non-executive Directors.

Policy on relative importance of performance linked and non-performance linked pay

The remuneration policy is to provide executive Directors with a basic salary that is competitive with the basic salary paid to directors in comparable companies as envisaged in the Inbucon report. In addition the performance linked element of remuneration is intended to provide the executive Directors with an opportunity to receive increased remuneration subject to meeting conditions which show that the group's financial performance has been enhanced.

Performance graph

For shareholders' information, the Company's total shareholder return performance, assuming dividends are reinvested, for the five years to 31 December 2002 is shown on the graph below compared with the return performance achieved by the FTSE All Share companies.



TT electronics plc ———

FTSE All Share ———

The FTSE All Share has been selected as a broad equity market index comparison.

Directors' share options

In accordance with the remuneration policy the Remuneration Committee generally grants options, following the announcement of the group results, to a value representing 50 per cent of basic salary, at full market value, to executive Directors under the terms of the 1994 and 1996 Executive Share Option Schemes. Options under these schemes are generally exercisable not less than three and not more than ten years after their grant, and then only if a performance criterion has been achieved. Prior to 2001 the Company must have experienced annual growth in its earnings per share of at least 2 per cent over and above the Retail Price Index for a period of three years following the grant of the options. Amendments to the TT Group PLC 1996 unapproved executive share option scheme were approved at an EGM held on 10 May 2001. It was explained in the circular seeking that approval that Meis Executive Compensation Consulting had carried out a review of performance targets and conditions currently in place within FTSE 350 companies that had adopted new share option schemes or amended existing share option schemes during 2000. Following receipt of that review, the Board determined that in future, options granted under share option schemes would carry a performance condition stating that the Company must have experienced annual growth in its earnings per share of at least 4 per cent over and above the Retail Price Index for a period of three years following the grant of the options. The constituent parts of the condition are calculated each year to see if the performance condition has been met. The Board believes that the conditions selected are appropriate for the reasons set out in the Meis report. The Board continues to review the appropriateness of that performance condition at each future option grant and have no present intention to change the condition. Meis have not provided any other services to the Company.

As S W A Comonte is no longer eligible under the rules of the share option schemes to be granted further options, he has been granted a bonus calculated so that if the pre-tax pre-goodwill profits of the group to 31 December 2002 and 31 December 2003 each year are 4 per cent per annum over the Retail Price Index above the published pre-tax pre-goodwill profits for the year to 31 December 2001 he will be paid the difference between the share price on 31 March 2004 and 165 pence multiplied by 70,000. This condition has been chosen because it links the benefit to similar conditions to those applying to share options granted to other executive Directors.

Share options granted in the period exercisable between April 2005 and April 2012 at a price of 165p:

	Options
J W Newman	128,593
R W Weaver	52,935
J W Armstrong	40,793

Share options outstanding at 31 December 2002 and the date of this report:

	Options	Weighted average price pence	Exercise period
Exercise price above year end closing price			
J W Newman	740,843	204.5	Apr 1998 – Apr 2012
S W A Comonte	414,947	202.6	Apr 1998 – May 2011
R W Weaver	319,162	187.7	Apr 1998 – Apr 2012
J W Armstrong	167,929	165.4	Apr 1998 – Apr 2012
Exercise price below year end closing price			
R W Weaver	109,289	91.5	Mar 2003 – Mar 2010
J W Armstrong	109,289	91.5	Mar 2003 – Mar 2010

T H Reed, M S Evans, D E A Crowe and Sir Laurence Magnus have not been granted share options.

The closing middle market prices for an ordinary share of 25p of the Company on 31 December 2001 and 2002 as derived from the Stock Exchange Daily Official List were 156.5p and 105.5p respectively. During the year the middle market price of TT electronics plc ranged between 193.5p and 105.5p.

Executive Directors' pensions

Each of the persons who were executive Directors during the year, was a member of the Company's pension scheme, which covers most senior employees of the Company.

	Increase in accrued pension £000	Accrued pension at 31 Dec 2002 £000	Transfer value at 31 Dec 2002 £000	Increase in transfer value £000	Transfer value at 31 Dec 2001 £000
J W Newman	18	183	1,627	174	1,432
S W A Comonte	5	111	1,401	202	1,188
R W Weaver	8	57	457	46	402
J W Armstrong	5	36	324	43	274

Notes

(a) Members of the scheme have the option to pay additional voluntary contributions; neither these contributions nor the resulting benefits are included in the above table.

(b) The increase in accrued pension during the year excludes any increases for inflation.

(c) The increase in transfer value during the year is net of employee contributions made to the scheme.

(d) Each executive Director has a normal retirement date of his sixty-fifth birthday.

(e) *No actuarial reduction is made in respect of early retirement between the ages of 60 and 65.*

(f) Accrued pension is that which would be paid annually on retirement at normal retirement date based on service and final pensionable salary to 31 December 2002.

(g) Transfer values are calculated in accordance with the "Retirement Benefit Schemes – Transfer Values (GN 11)" published by the Institute of Actuaries and the Faculty of Actuaries and dated 6 April 2001.

(h) *Pensions in payment accrued post 1 January 1989 for J W Newman, S W A Comonte and J W Armstrong, and in total for R W Weaver, are increased* annually in line with the annual rise in the All Items Index of Retail Prices subject to a maximum of 5 per cent per annum.

(i) In the event of the death of an executive Director, a pension equal to one half of the Director's pension will become payable to a surviving spouse.

Approved by the Board on 17 March 2003 and signed on its behalf by

MGL

M G Leigh
Secretary

REPORT OF THE INDEPENDENT AUDITORS

We have audited the financial statements of TT electronics plc for the year ended 31 December 2002 which comprise the accounting policies, the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the financial highlights, the Chairman's statement, the group overview, the Chief Executive's review, the financial review, the Directors' report, the unaudited part of the Directors' remuneration report, the corporate governance statement and the historical record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the group at 31 December 2002 and of the profit of the group for the year then ended and the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

Grant Thornton
Registered Auditors, Chartered Accountants
London
17 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2002

		2002							2001
	Note	**Business performance £million**	**Impairment provisions and goodwill amortisation £million**	**Total £million**	Business performance £million	Impairment provisions and goodwill amortisation £million	Continuing activities £million	Discontinued activities £million	Total £million
Turnover	1	**520.3**	**–**	**520.3**	630.7	–	630.7	27.2	657.9
Cost of sales	2	**(427.8)**	**(7.8)**	**(435.6)**	(521.5)	–	(521.5)	(20.4)	(541.9)
Gross profit		**92.5**	**(7.8)**	**84.7**	109.2	–	109.2	6.8	116.0
Operating expenses	2,3	**(70.1)**	**(4.7)**	**(74.8)**	(72.5)	(2.2)	(74.7)	(5.3)	(80.0)
Operating profit		**22.4**	**(12.5)**	**9.9**	36.7	(2.2)	34.5	1.5	36.0
Profit on sale of fixed asset investment	4	**1.2**	**–**	**1.2**	–	–	–	–	–
Loss on sale or termination of businesses	4	**–**	**–**	**–**	*(0.9)*	–	*(0.9)*	*(2.1)*	*(3.0)*
Cost of demerger	4	**–**	**–**	**–**	–	–	–	(1.1)	(1.1)
Profit on ordinary activities before interest		**23.6**	**(12.5)**	**11.1**	35.8	(2.2)	33.6	(1.7)	31.9
Interest	5	**(3.2)**	**–**	**(3.2)**	(5.9)	–	(5.9)	(0.2)	(6.1)
Profit on ordinary activities before taxation	6	**20.4**	**(12.5)**	**7.9**	29.9	(2.2)	27.7	(1.9)	25.8
Taxation	7	**(3.4)**	**1.3**	**(2.1)**	(7.4)	–	(7.4)	0.5	(6.9)
Profit on ordinary activities after taxation		**17.0**	**(11.2)**	**5.8**	22.5	(2.2)	20.3	(1.4)	18.9
Minority interests		**(0.2)**	**–**	**(0.2)**	–	–	–	–	–
Profit for the year		**16.8**	**(11.2)**	**5.6**	22.5	(2.2)	20.3	(1.4)	18.9
Dividends – ordinary	8	**(15.6)**	**–**	**(15.6)**	(15.6)	–	(15.6)	–	(15.6)
– in specie	8	**–**	**–**	**–**	–	–	–	(41.1)	(41.1)
Retained loss	26	**1.2**	**(11.2)**	**(10.0)**	6.9	(2.2)	4.7	(42.5)	(37.8)
Earnings per share	9								
– basic and fully diluted				**3.6p**					12.2p
– before impairment provisions, goodwill amortisation and exceptional items				**10.1p**					16.0p

The 2002 results arise from continuing activities.

CONSOLIDATED BALANCE SHEET

at 31 December 2002

	Note	2002 £million	2001 £million
Fixed assets			
Intangible assets	13	**30.2**	38.1
Tangible assets	14	**142.1**	153.2
Investments	15	**5.1**	10.7
		177.4	202.0
Current assets			
Property	16	**2.0**	4.0
Stocks	17	**98.2**	99.1
Debtors	18	**109.7**	111.0
Investments	19	**0.1**	0.1
Cash		**5.1**	8.8
		215.1	223.0
Creditors falling due within one year	20	**(121.0)**	(132.6)
Net current assets		**94.1**	90.4
Total assets less current liabilities		**271.5**	292.4
Creditors falling due after more than one year	21	**(57.2)**	(60.8)
Provisions for liabilities and charges	23	**(5.8)**	(6.9)
Minority interests	24	**(2.8)**	(2.6)
Total net assets		**205.7**	222.1
Capital and reserves			
Share capital	25	**38.7**	38.7
Share premium account	26	**56.0**	56.0
Capital redemption reserve	26	**4.4**	4.4
Merger reserve	26	**12.1**	12.1
Profit and loss account	26	**94.5**	110.9
Equity shareholders' funds		**205.7**	222.1

Approved by the Directors on 17 March 2003 and signed on their behalf by

J W Newman
Director

R W Weaver
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2002

	Note	2002 £million	2001 £million
Net cash inflow from operating activities	27	**42.6**	76.6
Returns on investments and servicing of finance			
Dividends received		**0.3**	0.3
Interest paid		**(4.0)**	(9.1)
Interest received		**0.5**	0.7
Net cash outflow from returns on investments and servicing of finance		**(3.2)**	(8.1)
Taxation		**(2.9)**	(7.4)
Capital expenditure and financial investment			
Sale of tangible fixed assets		**1.2**	3.2
Government grants received		**1.0**	2.5
Sale of fixed asset investment		**10.6**	–
Purchase of fixed asset investments		**(4.0)**	–
Purchase of tangible fixed assets		**(26.5)**	(35.4)
Net cash outflow from capital expenditure and financial investment		**(17.7)**	(29.7)
Acquisitions and disposals			
Demerger of businesses		**–**	15.2
Sale of businesses		**–**	5.4
Net cash inflow from disposals		**–**	20.6
Ordinary dividends paid		**(15.6)**	(15.6)
Net cash inflow before liquid resources and financing		**3.2**	36.4
Management of liquid resources			
Purchase of current asset investments		**–**	(1.7)
Net cash outflow from management of liquid resources		**–**	(1.7)
Financing			
New loans		**2.2**	51.8
Loan repayments		**(1.6)**	(21.1)
Finance lease repayments		**(0.3)**	(1.3)
Net cash inflow from financing		**0.3**	29.4
Increase in cash	28	**3.5**	64.1

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2002

	2002 £million	2001 £million
Profit for the year	**5.6**	18.9
Exchange differences on net foreign currency investments	**(6.4)**	(0.7)
Total recognised gains and losses	**(0.8)**	18.2

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2002

	2002 £million	2001 £million
Profit for the year	**5.6**	18.9
Exchange differences on net foreign currency investments	**(6.4)**	(0.7)
Total recognised gains and losses	**(0.8)**	18.2
Dividends – ordinary	**(15.6)**	(15.6)
– in specie	**–**	(41.1)
Goodwill on demerger and disposals	**–**	16.1
Net change in shareholders' funds	**(16.4)**	(22.4)
Opening shareholders' funds	**222.1**	244.5
Closing shareholders' funds	**205.7**	222.1

COMPANY BALANCE SHEET

at 31 December 2002

	Note	2002 £million	2001 £million
Fixed assets			
Tangible assets	14	**0.3**	0.4
Investments	15	**140.4**	146.0
		140.7	146.4
Current assets			
Property	16	**1.5**	2.1
Debtors	18	**157.3**	163.8
Cash		**–**	0.3
		158.8	166.2
Creditors falling due within one year	20	**(48.4)**	(48.8)
Net current assets		**110.4**	117.4
Total assets less current liabilities		**251.1**	263.8
Creditors falling due after more than one year	21	**(46.4)**	(48.8)
Provisions for liabilities and charges	23	**(0.2)**	(0.1)
Total net assets		**204.5**	214.9
Capital and reserves			
Share capital	25	**38.7**	38.7
Share premium account	26	**56.0**	56.0
Capital redemption reserve	26	**4.4**	4.4
Merger reserve	26	**70.3**	70.3
Profit and loss account	26	**35.1**	45.5
Equity shareholders' funds		**204.5**	214.9

Approved by the Directors on 17 March 2003 and signed on their behalf by

J W Newman
Director

R W Weaver
Director

ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards. The group has adopted FRS 19 'Deferred Tax' and makes the disclosures required under the second stage transitional arrangements of FRS 17 'Retirement Benefits'. The principal accounting policies of the group are summarised below and except for the policy on deferred taxation have remained unchanged from the previous year.

Basis of consolidation

The group's financial statements consolidate the financial statements of TT electronics plc and all of its subsidiary undertakings of which the principal ones are shown on page 56.

Subsidiary undertakings acquired are consolidated for the periods from the effective dates of acquisition and subsidiary undertakings sold or otherwise disposed of are consolidated up to the effective dates of disposal. All significant transactions between group companies are eliminated on consolidation.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings representing the difference between the cost of acquisition and the fair value of the separable net assets acquired, is capitalised and amortised on a straight line basis over its expected useful economic life up to a maximum of 20 years. Goodwill on acquisitions made before 1 January 1998 was taken 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 profit and loss account.

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 rates 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 profit and loss account translated at the average rate and the closing rate are taken directly to reserves.

All other exchange differences are dealt with through the profit and loss account.

Turnover

Turnover is the invoice 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.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less a provision for depreciation. Depreciation is calculated so as to write off the cost less estimated residual value of tangible fixed assets, in equal instalments over their expected useful lives. No depreciation is provided on freehold land. The depreciation rates for the major categories of asset are given in note 14. The carrying values of fixed assets are reviewed for impairment when there is an indication that the assets may be impaired.

Stocks

Stocks and work in progress are valued at the lower of cost, including related overheads, and net realisable value.

Deferred taxation

Deferred taxation is the taxation attributable to timing differences between results computed for taxation purposes and results as stated in the financial statements. It is recognised on all timing differences where the transaction or event which gives the group an obligation to pay more tax, or the right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax on defined benefit pension scheme surpluses or deficits is adjusted against the surplus or deficit. Deferred tax is measured using the rates of tax enacted or substantively enacted by the balance sheet date.

Investments

Fixed asset investments are included at cost less amounts written off.

Current asset investments are included at the lower of cost and net realisable value.

Leases

Assets acquired under finance leases which confer substantially all the risks and rewards of ownership of an asset are capitalised and outstanding instalments, net of interest, are shown in creditors. 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 profit and loss account on a straight line basis over the lease term.

Derivative financial instruments

Monetary assets and liabilities which are hedged by forward currency exchange contracts are translated at the contract rate. Forward currency contracts are also used to hedge the translation exposures of the profit and loss account and gains or losses on these contracts are recognised in the profit and loss account as incurred.

Derivative instruments are used in order to minimise the risk of the effect of price fluctuations in key raw materials. These instruments are treated as an economic hedge of the raw materials costs.

Pension costs

Pension costs for the defined benefit schemes are charged to the profit and loss account so as to spread the costs over the expected average service lives of employees in accordance with the recommendations of independent actuaries.

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

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and credited to the profit and loss account by equal instalments over the anticipated useful lives of the assets to which the grants relate. Other grants are credited to the profit and loss account over the period of the project to which they relate.

Research and development

Research and development costs are incurred in the development of new products and processes and in the substantial improvement of existing products and processes. This expenditure is charged to the profit and loss account as incurred.

NOTES TO THE FINANCIAL STATEMENTS

1. Analysis of turnover

By sector	2002 £million	2001 £million
Electronic	**349.0**	399.6
Electrical	**171.3**	231.1
Continuing activities	**520.3**	630.7
Discontinued activities	**–**	27.2
	520.3	657.9

Discontinued activities in 2001 arose from the demerger of the glass container businesses, the sale of the packaging machinery business, and the closure of the copper rod business.

By origin	2002 £million	2001 £million
United Kingdom	**270.9**	368.0
Rest of Europe	**112.9**	105.4
United States and Canada	**87.7**	98.9
Mexico and Central America	**18.6**	20.8
Rest of the World	**30.2**	37.6
Continuing activities	**520.3**	630.7
Discontinued activities	**–**	27.2
	520.3	657.9
By destination		
United Kingdom	**162.4**	227.2
Rest of Europe	**180.3**	202.1
United States and Canada	**91.8**	96.9
Mexico and Central America	**17.4**	19.0
Rest of the World	**68.4**	85.5
Continuing activities	**520.3**	630.7
Discontinued activities	**–**	27.2
	520.3	657.9

2. Impairment provisions and goodwill amortisation

	Note	2002 £million	2001 £million
Impairment of plant and equipment	14	**7.8**	–
Impairment of goodwill	13	**2.6**	–
Total impairment provisions		**10.4**	–
Goodwill amortisation	13	**2.1**	2.2
Impairment provisions and goodwill amortisation		**12.5**	2.2

In accordance with FRS 11 'Impairment of fixed assets and goodwill' the carrying values of the fixed assets and goodwill of the ferrites, laminations and printed circuit board businesses have been compared with their recoverable amount. The recoverable amount has been derived from an estimate of their net realisable value. The review has resulted in a charge of £10.4 million (2001 – £nil) to operating costs of which £2.6 million has been allocated to the goodwill which arose on the acquisition of the printed circuit board business and £7.8 million to plant and equipment.

3. Operating expenses

	2002 £million	2001 £million
Sales and distribution costs	**42.7**	44.0
Administration expenses	**35.0**	34.2
Other operating income	**(2.9)**	(3.5)
Continuing activities	**74.8**	74.7
Discontinued activities	**–**	5.3
Operating expenses	**74.8**	80.0

Administration expenses include £2.6 million (2001 – £nil) of goodwill impairment and £2.1 million (2001 – £2.2 million) of goodwill amortisation all of which relate to continuing activities.

4. Exceptional items

	2002 £million	2001 £million
Profit on sale of fixed asset investment	**1.2**	–
Loss on sale of businesses	**–**	(2.3)
Loss on termination of business	**–**	(0.7)
	1.2	(3.0)
Costs of reorganisation – demerger	**–**	(1.1)
	1.2	(4.1)

On 19 December 2002 the group disposed of its entire holding in Johnston Group PLC at a profit of £1.2 million, see note 15.

In 2001 the group sold the business of F. D. Sims Limited, a magnet wire manufacturer, and United Packaging PLC, a packaging machinery manufacturer, and closed the copper rod production facility of Rodco Limited.

5. Interest

	2002 £million	2001 £million
Interest payable on bank loans and overdrafts	**4.0**	7.0
Finance charges on hire purchase contracts	**–**	0.1
Bank interest receivable	**(0.5)**	(0.7)
Investment income receivable	**(0.3)**	(0.3)
	3.2	6.1

6. Analysis of profit on ordinary activities before taxation

	2002 £million	2001 £million
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation		
– tangible assets owned	**26.0**	31.3
– tangible assets hire purchase	**–**	0.4
Amortisation		
– intangible assets	**2.1**	2.2
Fees to Auditors		
– audit services	**0.7**	0.8
– non-audit services	**0.1**	0.1
Operating lease rentals		
– plant and machinery	**0.4**	0.5
– other	**2.4**	3.0
Research and development expenditure (net of customer funding)	**8.1**	9.6
Government grants credited	**(1.0)**	(1.8)
By sector		
Electronic	**15.7**	32.9
Electrical	**6.7**	3.8
Continuing activities	**22.4**	36.7
Discontinued activities	**–**	1.5
Operating profit before impairment provisions and goodwill amortisation	**22.4**	38.2
Impairment provisions and goodwill amortisation	**(12.5)**	(2.2)
Total operating profit	**9.9**	36.0
Exceptional items	**1.2**	(4.1)
Profit on ordinary activities before interest	**11.1**	31.9
Interest	**(3.2)**	(6.1)
Profit on ordinary activities before taxation	**7.9**	25.8

The impairment provisions and goodwill amortisation are in respect of the electronic sector.

6. Analysis of profit on ordinary activities before taxation continued

By origin	2002 £million	2001 £million
United Kingdom	**(0.9)**	6.4
Rest of Europe	**12.5**	10.6
United States and Canada	**3.2**	12.8
Mexico and Central America	**2.4**	1.8
Rest of the World	**5.2**	5.1
Continuing activities	**22.4**	36.7
Discontinued activities	**–**	1.5
Operating profit before impairment provisions and goodwill amortisation	**22.4**	38.2
Impairment provisions and goodwill amortisation	**(12.5)**	(2.2)
Total operating profit	**9.9**	36.0
Exceptional items	**1.2**	(4.1)
Profit on ordinary activities before interest	**11.1**	31.9
Interest	**(3.2)**	(6.1)
Profit on ordinary activities before taxation	**7.9**	25.8

Impairment provisions and goodwill amortisation are shown in note 2. Exceptional items are shown in note 4. Discontinued activities are defined in note 1.

7. Taxation

	2002 £million	2001 £million
United Kingdom corporation tax at 30% (2001 – 30%) based on the taxable profits for the year	**0.1**	0.7
Overseas taxation	**3.0**	5.9
Adjustment to tax charge in respect of previous periods	**(1.1)**	(0.6)
Current taxation	**2.0**	6.0
Deferred taxation	**0.1**	0.9
	2.1	6.9

The tax charge for the year represents an effective rate of 27% (2001 – 27%) after taking account of the utilisation of tax losses available within the group.

There is tax relief of £1.3 million on the impairment provisions and tax in respect of exceptional items of £nil (2001 – £0.5 million tax relief).

The current tax charge is explained as follows:	2002 £million	2001 £million
Profit on ordinary activities before tax	**7.9**	25.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 – 30%)	**2.4**	7.8
Effects of:		
Charges to profit not deductible for tax purposes	**3.3**	0.9
Capital allowances in excess of depreciation	**(1.1)**	(1.5)
Utilisation of tax losses	**(1.9)**	(1.5)
Higher tax rates on overseas earnings	**0.4**	0.9
Adjustment to tax charge in respect of previous periods	**(1.1)**	(0.6)
Current tax charge for period	**2.0**	6.0

8. Dividends

	2002 pence per share	2001 pence per share	2002 £million	2001 £million
Equity				
Ordinary dividends				
– Interim, paid	**3.69**	3.69	**5.7**	5.7
– Final, proposed	**6.36**	6.36	**9.9**	9.9
	10.05	10.05	**15.6**	15.6

On 15 May 2001 the group's glass container businesses were demerged by way of a dividend in specie of Send Group plc shares. Net assets demerged amounted to £41.1 million including £14.6 million of goodwill previously written off to reserves.

9. Earnings per share

	2002 pence per share	2001 pence per share
Earnings per share		
Basic and fully diluted	**3.6**	12.2
Before impairment provisions, goodwill amortisation and exceptional items	**10.1**	16.0

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

An adjusted earnings per share has also been presented based on the profit attributable to shareholders before impairment provisions, goodwill amortisation and exceptional items. The effect of these items on earnings is reconciled below.

	2002 £million	2001 £million
Net profit for the period attributable to shareholders		
Earnings basic and fully diluted	**5.6**	18.9
Goodwill amortisation	**2.1**	2.2
Impairment provisions, net of tax relief	**9.1**	–
Exceptional items, net of tax relief	**(1.2)**	3.6
Earnings before impairment provisions, goodwill amortisation and exceptional items	**15.6**	24.7

	2002 million	2001 million
Weighted average number of shares in issue		
Basic	**154.8**	154.8
Adjustment for share options	**0.4**	0.5
Fully diluted	**155.2**	155.3

10. Employees

The average number of employees (including Directors) during the year was:	2002 Number	2001 Number
By function		
Production	**7,003**	8,279
Sales and distribution	**768**	863
Administration	**524**	591
	8,295	9,733
By sector		
Electronic	**5,960**	6,911
Electrical	**2,335**	2,494
Continuing activities	**8,295**	9,405
Discontinued activities	**–**	328
	8,295	9,733

Discontinued activities are defined in note 1.

The aggregate emoluments (including those of Directors) for the year were:	2002 £million	2001 £million
Wages and salaries	**131.5**	149.1
Employers' social security charges	**16.5**	18.8
Employers' pension costs	**5.9**	7.0
	153.9	174.9
Remuneration in respect of the Directors was as follows:		
Emoluments	**1.2**	1.2

Further details of individual Directors' remuneration, pension benefits and share options are shown in the Directors' remuneration report on pages 21 to 24.

11. Related party transactions

Subsidiary undertakings of the group in the ordinary course of their respective businesses supplied and purchased goods and services valued at the aggregate of £119,000 (2001 – £122,000) and £19,000 (2001 – £21,000) respectively to and from companies in which J W Newman was interested during the year. Such supplies were made on normal credit terms. Additionally, the Company in the ordinary course of its business leased premises and provided normal services in respect of such premises to a company wholly owned by J W Newman during the year. The annual rental and service charge aggregating £16,800 (2001 – £16,800) and were calculated on open market bases and were paid monthly. The group also in the ordinary course of business leased premises from companies wholly owned by J W Newman during the year. The annual rentals, including service charges where applicable, aggregating £271,000 (2001 – £267,000) were calculated on open market bases and were paid monthly. On 15 November 2002, J W Newman, and parties acting in concert with him acquired control of Send Group plc. As part of the demerger from TT electronics, loans totalling £8 million repayable in 2004 and 2008 were made to Send Group plc. Interest on the loans for the period since 15 November 2002 amounted to £33,000. Goods and services valued at £10,000 were supplied to Send Group companies in the ordinary course of business and on normal credit terms since 15 November 2002.

12. Analysis of net assets

	2002 £million	2001 £million
Shareholders' funds	**205.7**	222.1
Loans and finance leases		
– falling due within one year	**1.5**	1.9
– falling due after more than one year	**46.8**	50.1
	254.0	274.1
Bank overdrafts less cash and liquid resources	**7.6**	11.5
	261.6	285.6
By sector		
Electronic	**179.0**	199.3
Electrical	**82.6**	84.1
Continuing activities	**261.6**	283.4
Discontinued activities	**–**	2.2
	261.6	285.6
By origin		
United Kingdom	**116.3**	135.5
Rest of Europe	**38.5**	34.1
United States and Canada	**92.7**	101.8
Mexico and Central America	**4.0**	5.1
Rest of the World	**10.1**	9.1
	261.6	285.6

Discontinued activities are defined in note 1.

13. Intangible fixed assets

	Goodwill £million	Other £million	Total £million
Group			
Cost at 1 January 2002	42.4	0.2	42.6
Disposal	–	(0.2)	(0.2)
Exchange translation differences	(3.7)	–	(3.7)
Cost at 31 December 2002	**38.7**	**–**	**38.7**
Amortisation at 1 January 2002	4.3	0.2	4.5
Charge for the year	2.1	–	2.1
Impairment, see note 2	2.6	–	2.6
Disposal	–	(0.2)	(0.2)
Exchange translation differences	(0.5)	–	(0.5)
Amortisation and impairment at 31 December 2002	**8.5**	**–**	**8.5**
Net book amounts			
At 31 December 2002	**30.2**	**–**	**30.2**
At 31 December 2001	38.1	–	38.1

The impairment provision writes off the goodwill arising from the acquisition of Prestwick Circuits Limited.

The expected useful economic life of the remaining goodwill is considered to be 20 years from the date of acquisition.

14. Tangible fixed assets

	Freehold land and buildings £million	Leasehold land and buildings £million	Plant, equipment and vehicles £million	Total £million
Group				
Cost at 1 January 2002	63.5	9.0	328.5	401.0
Additions	2.6	–	23.9	26.5
Disposals	–	–	(22.1)	(22.1)
Exchange translation differences	(1.0)	0.1	(4.8)	(5.7)
Cost at 31 December 2002	**65.1**	**9.1**	**325.5**	**399.7**
Depreciation at 1 January 2002	16.2	4.2	227.4	247.8
Charge for the year	1.2	0.3	24.5	26.0
Impairment provisions, see note 2	–	–	7.8	7.8
Disposals	–	–	(21.0)	(21.0)
Exchange translation differences	(0.4)	–	(2.6)	(3.0)
Depreciation and impairment at 31 December 2002	**17.0**	**4.5**	**236.1**	**257.6**
Net book amounts				
At 31 December 2002	**48.1**	**4.6**	**89.4**	**142.1**
At 31 December 2001	47.3	4.8	101.1	153.2

The figures stated above for plant, equipment and vehicles include assets held under finance leases with a net book amount of £nil million (2001 – £1.2 million).

The net book amount of freehold land and buildings includes £15.0 million (2001 – £15.3 million) in respect of land.

The net book amount of leasehold land and buildings comprises long leasehold (over 50 years) of £2.6 million (2001 – £2.8 million) and short leasehold of £1.9 million (2001 – £2.0 million).

Depreciation is provided, other than on freehold land, at the following annual rates on a straight line basis:

Freehold buildings	2%
Leasehold land and buildings	2% (or over the period of the lease, if less than 50 years)
Plant, equipment and vehicles	4% to 33%

	Freehold land and buildings £million	Plant, equipment and vehicles £million	Total £million
Company			
Cost at 1 January 2002 and 31 December 2002	**0.2**	**1.1**	**1.3**
Depreciation at 1 January 2002	–	0.9	0.9
Charge for the year	–	0.1	0.1
Depreciation at 31 December 2002	**–**	**1.0**	**1.0**
Net book amounts			
At 31 December 2002	**0.2**	**0.1**	**0.3**
At 31 December 2001	0.2	0.2	0.4

15. Fixed asset investments

	UK listed £million
Group	
At 1 January 2002	10.7
Additions	4.0
Disposal	(9.4)
Provision	(0.2)
At 31 December 2002	**5.1**

	UK listed at cost £million	Subsidiary undertakings £million	Total £million
Company			
At 1 January 2002	10.5	135.5	146.0
Additions	4.0	0.3	4.3
Disposals	(9.4)	(0.5)	(9.9)
At 31 December 2002	**5.1**	**135.3**	**140.4**

The group's principal operating subsidiary undertakings and the location of their principal operations are shown on page 56.

TT electronics plc owns 100% of the ordinary share capital or equivalent and 100% of voting rights of all group subsidiary undertakings other than Rodco Limited which is 60% owned. Shareholdings are held indirectly for all principal operating subsidiary undertakings.

On 19 December 2002 TT electronics plc sold its entire holding in Johnston Group PLC for a cash consideration of £10.6 million. The profit on disposal of £1.2 million is reported as an exceptional item, see note 4.

TT electronics plc owns 23.3% of the equity share capital of Pressac PLC. TT electronics plc does not exercise significant influence over the financial or operating policies of Pressac PLC. At 31 December 2001 the consolidated net assets of Pressac PLC were £30.0 million and its loss for the year after exceptional charges of £19.6 million and taxation was £16.9 million.

The market value of UK listed investments at 31 December 2002 was £4.4 million (2001 – £5.6 million).

16. Property

	£million
Group	
At 1 January 2002	4.0
Additions	0.1
Disposal	(2.1)
At 31 December 2002	**2.0**

	£million
Company	
At 1 January 2002	2.1
Additions	0.1
Disposal	(0.7)
At 31 December 2002	**1.5**

Properties which are no longer used for the purpose of the trade and are being held for sale are classified as current assets and carried at the lower of cost and net realisable value.

17. Stocks

	2002 £million	2001 £million
Group		
Raw materials	**32.6**	33.9
Work in progress	**25.6**	23.2
Finished goods	**40.0**	42.0
	98.2	99.1

18. Debtors

	***Group* 2002 £million**	*Group* 2001 £million	***Company* 2002 £million**	*Company* 2001 £million
Amounts falling due within one year				
Trade debtors	**85.5**	87.1	**0.2**	–
Amounts owed by subsidiary undertakings			**148.5**	153.9
Other debtors	**3.5**	4.8	**–**	–
Prepayments and accrued income	**9.9**	9.1	**0.2**	1.9
Pension prepayment	**1.8**	1.1	**0.4**	–
	100.7	102.1	**149.3**	155.8
Amounts falling due after more than one year				
Other debtors	**0.2**	0.2	**–**	–
Loans to Send Group plc	**8.0**	8.0	**8.0**	8.0
Pension prepayment	**0.8**	0.7	**–**	–
	9.0	8.9	**8.0**	8.0
	109.7	111.0	**157.3**	163.8

19. Current asset investments

	Group UK listed £million
At 1 January 2002 and 31 December 2002	**0.1**

The UK listed investments are all listed on the London Stock Exchange and are classified as liquid resources in the consolidated cash flow statement.

The market value of investments at 31 December 2002 is £0.1 million (2001 – £0.1 million).

20. Creditors falling due within one year

	Group 2002 £million	Group 2001 £million	**Company 2002 £million**	Company 2001 £million
Bank overdrafts	**12.7**	20.4	**0.1**	–
Bank loans	**1.5**	1.6	**0.3**	0.4
Amounts due under finance leases	**–**	0.3	**–**	–
Trade creditors	**62.2**	61.0	**0.5**	0.4
Amounts owed to subsidiary undertakings			**33.7**	32.1
Corporation tax	**11.2**	10.5	**0.7**	2.3
Taxation and social security	**4.5**	7.3	**0.9**	1.6
Other creditors	**1.2**	2.4	**0.3**	–
Accruals and deferred income	**17.8**	19.2	**2.0**	2.1
Dividends	**9.9**	9.9	**9.9**	9.9
	121.0	132.6	**48.4**	48.8

21. Creditors falling due after more than one year

	Group 2002 £million	Group 2001 £million	**Company 2002 £million**	Company 2001 £million
Bank loans	**46.8**	50.1	**46.4**	48.8
Accruals and deferred income	**2.9**	2.8	**–**	–
Pension accrual	**7.5**	7.9	**–**	–
	57.2	60.8	**46.4**	48.8

22. Borrowings and financial instruments

The group's borrowings are funded mainly through bank overdrafts and a committed £50.0 million multicurrency revolving bank loan facility which expires in June 2006. Under this facility funds can be drawn in either sterling, US dollars or euros or a combination thereof at fixed rates of interest for periods varying from one month to a year. Interest rates are at a fixed margin over the appropriate inter bank borrowing rate at the date the funds are drawn. The group has entered into interest rate swaps to fix the interest rate which will apply to $65 million of borrowings for the year to 30 June 2004.

The group's treasury and foreign currency policy is set out on page 15.

The group has designated $65 million of its borrowings as a currency hedge of its North American and other US dollar related assets. The exchange gains or losses on this borrowing offset the group's gains or losses on translation of its US dollar denominated net assets. The net result is dealt with in reserves and reported in the Statement of Total Recognised Gains and Losses, together with the exchange difference arising from the translation of the group's other overseas subsidiaries, mainly in Continental Europe.

Currency exposure on the translation of profits earned in euros has been reduced by forward foreign exchange contracts to sell euros maturing in December 2003. There is a currency exposure on the translation of profits earned by other overseas subsidiaries. The group seeks to avoid currency exposures on sales and purchasing transactions by the use of forward currency contracts and uses forward contracts to manage the cost of key raw materials.

Short-term debtors and creditors have been excluded from the following disclosures, other than in respect of currency risk disclosures.

Financial liabilities

The interest rate profile of the group's financial liabilities at 31 December 2002 was:

	Weighted average fixed interest rate %	Period for which rate is fixed in years	Fixed rate £million	Floating rate £million	Total £million
2002					
Sterling	**4.7**	**0.3**	**5.8**	**0.1**	**5.9**
US dollar	**2.9**	**1.5**	**40.6**	**8.0**	**48.6**
Euro	**2.6**	**1.8**	**0.6**	**5.9**	**6.5**
Other	**–**	**–**	**–**	**–**	**–**
			47.0	**14.0**	**61.0**
2001					
Sterling	4.9	0.3	3.9	6.6	10.5
US dollar	4.7	0.5	44.9	12.4	57.3
Euro	4.1	3.7	1.7	2.8	4.5
Other	–	–	–	0.1	0.1
			50.5	21.9	72.4

The floating rate debts in sterling and US dollars bear interest based on the UK base rate and the 30 day US dollar libor rate respectively. The US dollar average fixed interest rate and the period for which it is fixed include the effect of the interest rate swaps.

22. Borrowings and financial instruments continued

Maturity profile of financial liabilities

	Group 2002 £million	Group 2001 £million	**Company 2002 £million**	Company 2001 £million
In less than one year or on demand				
Bank borrowings	**14.2**	22.0	**0.4**	0.4
Finance leases	**–**	0.3	**–**	–
Between one and two years				
Bank borrowings	**–**	0.7	**–**	0.3
Between two and five years				
Bank borrowings	**46.8**	49.4	**46.4**	48.5
	61.0	72.4	**46.8**	49.2

Undrawn committed borrowing facilities at 31 December 2002, which are due for renewal during 2003, amounted to £10.1 million (2001 – £8.4 million).

Fair values

The fair values of financial assets and liabilities which are the same as their book values have been determined in accordance with the guidance set out in FRS 13 and are shown below:

	31 December 2002		31 December 2001	
	Book value £million	**Fair value £million**	Book value £million	Fair value £million
Financial assets				
Fixed asset investments	**5.1**	**5.1**	10.7	10.7
Current asset investments	**0.1**	**0.1**	0.1	0.1
Cash	**5.1**	**5.1**	8.8	8.8
Financial liabilities				
Bank overdrafts	**(12.7)**	**(12.7)**	(20.4)	(20.4)
Bank loans due within one year	**(1.5)**	**(1.5)**	(1.6)	(1.6)
Finance leases due within one year	**–**	**–**	(0.3)	(0.3)
Bank loans due after one year	**(46.8)**	**(46.8)**	(50.1)	(50.1)
Interest rate swaps 2003 and 2004	**–**	**–**	–	–
	(50.7)	**(50.7)**	(52.8)	(52.8)

23. Provisions for liabilities and charges

	Other provisions £million	Deferred tax £million	Total £million
Group			
At 1 January 2002	3.0	3.9	6.9
Transfer (to)/from profit and loss account	(0.8)	0.1	(0.7)
Exchange translation differences	–	(0.4)	(0.4)
At 31 December 2002	**2.2**	**3.6**	**5.8**

	2002 £million	2001 £million
The deferred tax provision comprises:		
Accelerated capital allowances	**2.6**	2.3
Other short-term timing differences	**1.0**	1.6
	3.6	3.9

No provision is made for any liability which may arise in the event that any reserves of overseas subsidiary undertakings are distributed.

The Company has a deferred tax liability of £0.2 million (2001 – £0.1 million) arising from short-term timing differences.

Other provisions are mainly for environmental costs and onerous contracts.

24. Minority interests

Minority interests comprise a 40 per cent equity interest in Rodco Limited not owned by the group.

25. Share capital

	2002 £million	2001 £million
Authorised		
226,000,000 (2001 – 226,000,000) ordinary shares of 25p each	**56.5**	56.5
Issued, called up and fully paid		
154,798,103 (2001 – 154,798,103) ordinary shares of 25p each	**38.7**	38.7

Ordinary shares of 25p each are equity share capital.

Share option schemes At 31 December 2002 options were exercisable over 4,908,158 (2001 – 4,174,731) ordinary shares under the group share option schemes up to 2012. Subscription prices range from 91.5p to 359.0p with a weighted average of 175.5p. Subsequent to 31 December 2002 no options have been exercised or have lapsed.

25. Share capital continued

1994 Executive scheme This scheme for senior executives was approved at the Annual General Meeting on 24 May 1994. On 3 April 2002 options over 548,299 ordinary shares exercisable at 165.0p were granted. The options outstanding at the date of this report are over 2,055,930 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
04.04.1998	142,988	241.0
15.04.1999	99,475	319.0
22.04.2000	72,325	359.0
24.03.2001	127,597	300.0
31.03.2002	209,925	177.5
28.03.2003	446,016	91.5
18.04.2004	423,125	163.0
03.04.2005	534,479	165.0

1996 Executive scheme This scheme for senior executives was approved at the Annual General Meeting on 14 May 1996. On 3 April 2002 options over 412,813 ordinary shares exercisable at 165.0p were granted. The options outstanding at the date of this report are over 2,852,228 ordinary shares and such options are:

Exercisable on or after	Options	Subscription price (p)
06.06.1999	136,200	353.0
22.04.2000	206,587	359.0
24.03.2001	129,088	300.0
31.03.2002	160,751	177.5
15.09.2002	514,703	136.0
28.03.2003	615,934	91.5
18.04.2004	203,925	163.0
23.05.2004	472,227	166.0
03.04.2005	412,813	165.0

Options issued under the 1994 and 1996 Executive Share Option schemes may not be generally exercised for a period of three years from the date of grant and are conditional on there being an increase in earnings per share over any consecutive three year period between the date of grant and the date of exercise of an average of 2 per cent per annum for options granted prior to 2001 and 4 per cent for options granted in 2001 and 2002 above the increase in the All Items Index of Retail Prices over the same period. For this purpose earnings per share on any relevant date is that derived from the audited financial statements of the Company and its subsidiaries last published prior to such date.

26. Reserves

	Share premium account £million	Capital redemption reserve £million	Merger reserve £million	Profit and loss account £million
Group				
At 1 January 2002	56.0	4.4	12.1	110.9
Retained loss for the year	–	–	–	(10.0)
Exchange translation differences	–	–	–	(6.4)
At 31 December 2002	**56.0**	**4.4**	**12.1**	**94.5**

The goodwill arising on the acquisition of subsidiary undertakings charged to merger reserve at 31 December 2002 amounts to £58.2 million (2001 – £58.2 million).

	Share premium account £million	Capital redemption reserve £million	Merger reserve £million	Profit and loss account £million
Company				
At 1 January 2002	56.0	4.4	70.3	45.5
Retained loss for the year	–	–	–	(10.4)
At 31 December 2002	**56.0**	**4.4**	**70.3**	**35.1**

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. A profit of £5.2 million (2001 – £67.6 million) has been dealt with in the financial statements of the Company.

27. Reconciliation of group operating profit to net cash inflow from operating activities

	2002 £million	2001 £million
Total operating profit	**9.9**	36.0
Depreciation	**26.0**	31.7
Amortisation	**2.1**	2.2
Charge for impairment	**10.4**	–
Government grants credited to profit	**(1.0)**	(1.8)
Profit on sale of tangible fixed assets	**(0.1)**	(0.3)
Closure and other costs	**(1.0)**	(0.9)
Decrease in property current assets	**2.0**	2.9
Decrease in stocks	**0.9**	8.5
Decrease in debtors	**2.2**	19.9
Decrease in creditors	**(4.0)**	(17.2)
Movement on pension prepayments and accruals	**(1.2)**	(3.4)
Exchange translation differences	**(3.6)**	(1.0)
Net cash inflow from operating activities	**42.6**	76.6

28. Reconciliation of net cash flow to movement in net debt

	Cash at bank £million	Bank overdrafts £million	Net cash/ (overdraft) £million	Short-term investments £million	Loans and finance lease obligations £million	Net debt £million
Balance at 31 December 2000	5.1	(78.0)	(72.9)	0.1	(24.4)	(97.2)
Cash flow	3.6	60.5	64.1	1.7	(29.4)	36.4
Demerger	–	–	–	–	0.2	0.2
Exchange differences	0.1	(2.9)	(2.8)	–	1.6	(1.2)
Other non-cash movements	–	–	–	(1.7)	–	(1.7)
Balance at 31 December 2001	8.8	(20.4)	(11.6)	0.1	(52.0)	(63.5)
Cash flow	(2.1)	5.6	3.5	–	(0.3)	3.2
Exchange differences	(1.6)	2.1	0.5	–	4.0	4.5
Balance at 31 December 2002	**5.1**	**(12.7)**	**(7.6)**	**0.1**	**(48.3)**	**(55.8)**

29. Guarantees and financial commitments

Financial commitments relating to bank loans are set out in notes 20 and 22. The Company has no guarantees or contingent financial commitments.

30. Contingent liabilities

The group has contingent liabilities amounting to £0.9 million (2001 – £1.5 million) in respect of performance bonds and guarantees entered into during the normal course of business.

The Company and the group have no other contingent liabilities which could have a material adverse effect on their financial position.

31. Capital commitments

	2002 £million	2001 £million
Group		
Commitments were:		
Contracted	**6.9**	6.4
Authorised but not contracted	**12.7**	8.8

The Company had no capital commitments at 31 December 2002 and 31 December 2001.

32. Obligations under operating leases

The operating lease payments due within one year to which the group and the Company were committed at 31 December 2002 were:

	Land and buildings £million	Other £million	2002 Total £million	Land and buildings £million	Other £million	2001 Total £million
Group						
On leases expiring:						
within one year	**0.2**	**0.1**	**0.3**	–	0.2	0.2
between two and five years	**0.9**	**0.1**	**1.0**	1.0	0.2	1.2
over five years	**1.6**	**0.1**	**1.7**	1.9	–	1.9
	2.7	**0.3**	**3.0**	2.9	0.4	3.3
Company						
On leases expiring:						
within one year	**–**	**0.1**	**0.1**	–	0.1	0.1
between two and five years	**–**	**0.1**	**0.1**	–	–	–
over five years	**0.4**	**–**	**0.4**	0.4	–	0.4
	0.4	**0.2**	**0.6**	0.4	0.1	0.5

33. Pension schemes

At the year end the group operated nine defined benefit schemes closed to new members and two closed defined benefit pension schemes in the United Kingdom, the assets of which were held under trusts and were therefore independent of the group. These schemes will incur an increase in the current service cost under the projected unit cost method as the members of the schemes approach retirement. The schemes were broadly associated with each of the principal subsidiary undertakings of the Company. The group also operated two active money purchase schemes to provide benefits for eligible employees.

SSAP 24 'Accounting for Pension Costs' disclosures

Defined benefit schemes

Actuarial valuations of the various schemes were carried out by independent qualified actuaries between March 1999 and April 2001 principally using *the projected unit cost method. The principal assumptions used were that investment returns would be 2.0 per cent higher than the growth in annual* salaries and that pensions in the course of payment could increase by up to 5 per cent. The combined actuarial valuation at the actuarial dates of the schemes operated by the group was £162 million. The actuarial valuations represented between 76 per cent and 116 per cent of the benefits accrued, on a continuance basis, to the members of the schemes. The surpluses take account of the improvements to benefits agreed by the trustees of certain schemes following the actuarial valuations. The deficits should be eliminated at current funding rates over the average expected remaining working lives of current employees. The ongoing pension costs are based on the advice of the schemes' actuaries and are reduced where appropriate by the amortisation of the surplus over the average expected working lives of the members. The total United Kingdom contributions charged by the group in respect of the year ended 31 December 2002 were £4.8 million (2001 – £5.7 million). The differences between the accumulated charge and payments made to the schemes is dealt with in debtors and creditors as appropriate.

Defined contribution schemes

The assets of the schemes were in funds, administered by trustees, independent from those of the group. The total United Kingdom contributions charged by the group in respect of the year ended 31 December 2002 were £0.2 million (2001 – £0.2 million).

33. Pension schemes continued

FRS 17 'Retirement Benefits' disclosures

This accounting standard, which is fully effective for the 2005 financial year, requires certain disclosures in the transition period. These disclosures are set out below. The calculations used for these disclosures are based on the most recent actuarial valuations updated by the actuaries to assess the assets and liabilities of the schemes at 31 December 2002.

Pension scheme assets are stated at market value at 31 December 2002. Pension scheme liabilities have been calculated using the projected unit cost method and the following financial assumptions:

	2002 %	2001 %
Discount rate	**6.0**	6.0
Inflation rate	**2.3**	2.5
Increases to pensions in payment	**2.3-3.0**	2.5-3.0
Salary increases	**2.9**	3.2

The expected long-term rates of return on the main asset classes, net of expenses, at 31 December 2002 were:

	2002 %	2001 %
Equities	**7.0**	7.2
Bonds	**5.2**	5.2
Gilts and cash	**3.7**	4.2

On the above basis the assets and liabilities of the pension schemes were:	2002 £million	2001 £million
Equities	**120.6**	150.5
Bonds	**17.6**	18.5
Gilts and cash	**17.3**	17.3
	155.5	186.3
Present value of liabilities	**(219.2)**	(208.9)
Deficit	**(63.7)**	(22.6)
Related deferred tax	**19.1**	6.8
Net pension liability	**(44.6)**	(15.8)

The amounts charged to the profit and loss account under FRS 17 would have been:	2002 £million
Current service cost	**5.4**
Expected return on pension scheme assets	**(12.6)**
Interest on pension scheme liabilities	**12.7**
Profit and loss charge	**5.5**

33. Pension schemes continued

The amount that would have been included in the statement of total recognised gains and losses under FRS 17 is:	2002 £million
Actual return less expected return on pension scheme assets	**(45.0)**
Experience gains and losses arising on the scheme liabilities	**(2.5)**
Changes in the assumptions underlying the present value of the scheme liabilities	**6.6**
Actuarial loss	**(40.9)**
Deferred tax movement	**12.3**
Actuarial loss, net of deferred tax	**(28.6)**

	2002
Difference between expected and actual return on scheme assets:	
Amount (£million)	**(45.0)**
Percentage of scheme assets	**29%**
Experience gains and losses on scheme liabilities:	
Amount (£million)	**(2.5)**
Percentage of present value of scheme liabilities	**1%**
Total actuarial gains and losses:	
Amount (£million)	**(40.9)**
Percentage of present value of scheme liabilities	**19%**

The movement in the deficit in the year under FRS 17 would have been:	2002 £million
Deficit at 1 January 2002, net of deferred tax	**(15.8)**
Current service cost	**(5.4)**
Contributions	**6.0**
Other finance income	**(0.1)**
Actuarial loss, net of deferred tax	**(28.6)**
Exchange rate differences	**(0.7)**
Deficit at 31 December 2002, net of deferred tax	**(44.6)**

The effect on the group's profit and loss reserve if FRS 17 had been adopted early is shown below:	2002 £million	2001 £million
Reserves		
Profit and loss account as stated in the financial statements at 31 December 2002	**94.5**	110.9
SSAP 24 prepayment	**(2.6)**	(1.8)
SSAP 24 accrual	**7.7**	8.1
Net pension liability	**(44.6)**	(15.8)
Profit and loss account as adjusted at 31 December 2002	**55.0**	101.4

TT electronics plc is a member of a multi-employer scheme, the disclosures for which are included above.

HISTORICAL RECORD

Accounting year		2002	2001	2000	1999	1998
Turnover	(£million)	**520.3**	657.9	746.0	612.4	619.9
Profit before taxation	(£million)	**7.9**	25.8	40.7	38.0	65.0
Ordinary dividend	(£million)	**15.6**	15.6	15.6	16.3	16.3
Ordinary dividend per share	(p)	**10.05**	10.05	10.05	9.79	9.79
Earnings	(£million)	**5.6**	18.9	29.7	27.3	46.9
Average ordinary shares in issue	(million)	**154.8**	154.8	158.4	166.4	168.9
Earnings per ordinary share before impairment provisions, goodwill amortisation and exceptional items	(p)	**10.1**	16.0	21.0	16.2	26.6
Basic earnings per ordinary share	(p)	**3.6**	12.2	18.7	16.4	27.8
Shareholders' funds	(£million)	**205.7**	222.1	244.5	238.5	228.3
Asset value per ordinary share in issue at 31 December	(p)	**133**	143	158	143	137

FINANCIAL CALENDAR

Annual General Meeting
14 May 2003

Shares ex dividend
14 May 2003

Final ordinary dividend paid
29 May 2003

Announcement of 2003 half year results
Mid September 2003

Interim ordinary dividend 2003 paid
Late October 2003

Preliminary announcement of 2003 results
Mid March 2004

Annual Report 2003 posted
Mid April 2004

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of TT electronics plc will be held at the Ironmongers' Hall, Shaftesbury Place, Barbican, London EC2Y 8AA on Wednesday 14 May 2003 at 12 noon for the following purposes:

(1) To receive the Financial Statements for 2002, the Directors' Report and the Auditors' Report.

(2) To approve the Directors' Remuneration Report for the year ended 31 December 2002.

(3) To declare a dividend of 6.36p per ordinary share.

(4) To re-elect S W A Comonte a Director.

(5) To re-elect R W Weaver a Director.

(6) To re-elect M S Evans a Director.

(7) To reappoint Grant Thornton as Auditors and to authorise the Directors to fix the Auditors' remuneration.

As special business to consider and, if thought fit, to pass the following resolutions of which resolution 8 will be proposed as an ordinary resolution and resolutions 9 and 10 will be proposed as special resolutions.

General Allotment Authority

(8) THAT the Directors of the Company, in substitution for all authorities previously conferred upon them (save to the extent that the same may already have been exercised), be and they are hereby authorised generally and unconditionally for the purposes of Section 80 of the Companies Act 1985 (the 'Act') to allot relevant securities (within the meaning of Section 80(2) of the Act) up to a maximum aggregate nominal amount of £12,899,841, such authority to expire on 30 June 2004 save where the Directors exercise such authority pursuant to an offer or agreement made prior to that date.

Disapplication of Pre-emption Rights

(9) THAT the Directors of the Company be and they are hereby empowered in accordance with Section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (as defined in Section 94 of the Act) for cash, pursuant to the general authority conferred by resolution 8 above as if sub-section (1) of Section 89 of the Act did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of ordinary shares held by them on the record date of such allotment subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory or the requirements of any regulatory body in any territory or any other matter whatsoever; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) of this resolution) of equity securities up to an aggregate nominal value not exceeding £1,934,976

and this power, unless renewed or revoked, shall expire on 30 June 2004 but shall extend to the making, before such expiry, of any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired and so that all previous authorities of the Directors pursuant to Section 89 of the Act, save to the extent to which any such previous authorities have already been exercised, be and they are hereby revoked.

Purchase of Own Shares

(10) THAT the Company be and is hereby generally and unconditionally authorised, pursuant to the provisions of Article 74 of the Company's Articles of Association, to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) on the London Stock Exchange plc (the 'Exchange') of ordinary shares of 25p each in the capital of the Company ('ordinary shares') provided that:

(i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 15,479,810 representing approximately 10 per cent of the Company's issued ordinary share capital;

(ii) the minimum price which may be paid for such ordinary shares is 25p per ordinary share (exclusive of expenses);

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share is not more than 5 per cent above the average of the market values for an ordinary share as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;

(iv) unless previously revoked or varied, the authority hereby conferred shall expire on 30 June 2004; and

(v) the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By Order of the Board

M G Leigh
Secretary

8 April 2003

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders registered in the Register of Members of the Company 48 hours before the time fixed for the Annual General Meeting shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after 48 hours before the time fixed for the Meeting will be disregarded in determining the rights of any person to attend or vote at the Meeting.

Members are entitled to appoint one or more proxies to attend and, on a poll, to vote for them. A proxy need not be a member of the Company. Proxies, to be effective, must be lodged with Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL at least 48 hours before the time fixed for the Meeting.

No service agreement exists or is proposed between any Director of the Company and the Company or any subsidiary undertaking of the Company which is terminable on notice of longer than three months.

A form of proxy is enclosed

PRINCIPAL OPERATING SUBSIDIARIES

Electronic sector

Sensors and electronic systems
AB Automotive Electronics Limited
AB Automotive Inc, USA
AB Electronic Limited
AB Elektronik GmbH, Germany

Electronic components
AB Mikroelektronik GmbH, Austria
BI Technologies, USA, United Kingdom, Mexico and Malaysia
International Resistive Company Inc, USA
Prestwick Circuits Limited
Welwyn Components Limited

Magnetics
MMG GB Limited
MMG India Private Limited, India
MMG North America Inc, USA

Electronic manufacturing services
TT electronic manufacturing services Limited

Electrical sector

Power generation
Erskine Systems Limited
Genergy plc
Houchin Aerospace Limited
Ottomotores SA de CV, Mexico

Power and data transmission
AB Connectors Limited
AEI Cables Limited
AEI Compounds Limited
Wire Systems Technology (PTY) Limited, South Africa
W T Henley Limited

Notes
- Companies are located in the United Kingdom except where indicated.
- Addresses and telephone numbers are shown on the TT electronics plc website: www.ttelectronics.com
- Only those subsidiaries whose results principally affected these financial statements are shown above.

ADVISORS AND REGISTERED OFFICE

Bankers
HSBC Bank plc
National Westminster Bank plc
Barclays Bank PLC

Auditors
Grant Thornton
Melton Street
Euston Square
London NW1 2EP

Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Registered office
TT electronics plc
Clive House
12-18 Queens Road
Weybridge
Surrey KT13 9XB
Reg. No. 87249

TT electronics plc
Clive House
12-18 Queens Road
Weybridge
Surrey KT13 9XB

Tel: +44 (0) 1932 841310
Fax: +44 (0) 1932 836450
www.ttelectronics.com