Titan Europe Plc

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# Titan Europe Plc ("Titan Europe" or "the Company" or "the Group")

***"Manufacturers of "off-highway" wheels and undercarriages for the global Construction, Agricultural and Mining markets"***

***"2008 was a dramatic roller-coaster ride for our Company with market conditions and material pricing and availability swinging dramatically in a very short time. As a consequence, the 2008 financial results say much less than usual about the tremendous amount of effort that our management team has put into the business.***

***2008 saw record revenues of £452.3m (2007: £385.8m) an increase of 17.2%. However, as a result of margin reductions and the downturn which began in the 4th quarter, trading profit for the Group was down 2.2% at £31.2m (2007: £31.9m).***

***As reported in our February 2009 trading update, we have reduced our forecast sales volumes for the year to 30% below those achieved in 2008. In light of this reduction, we are continuing our programme of scaling back material inputs, manufacturing, people and investment plans in order to realign our cost base to reflect the more challenging markets our industry is experiencing. However, great care is being taken to preserve the Group's resources and investment in engineering, quality and technical sales.***

***On 19 May 2009, we successfully renegotiated the Group's primary banking facilities. The new amendment and restatement agreement for the €110,000,000 facility provides covenant and liquidity headroom to support the Group's long term business plans and reflects our primary lenders commitment to, and the financial stability of, the Titan Europe business.***

***In the current situation, your Board believes that the business will be well placed to take advantage of opportunities in our industry as markets recover."***

***Mike Akers, Chief Executive, Titan Europe Plc***

**2008 Preliminary Results attached**


**Enquiries:**

| | | |
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# Preliminary Results
# for the year ended 31 December 2008

The Board of Titan Europe is pleased to announce its unaudited preliminary results for the year ended 31 December 2008, expressed under International Financial Reporting Standards (IFRS) and prepared in accordance with the accounting policies to be adopted in the Annual Report for the twelve months ended 31 December 2008.

**Highlights:**

- Revenue up 17.2% to £452.3m (2007: £385.8m)
- Within the Wheels division record revenue (including share of joint venture) at £197.2m (2007: £144.8m) and record trading profit (excluding share of joint venture) at £22.6m (2007: £10.7m)
- Continued growth in revenue from South America and Rest of World with revenue up in the Undercarriage division 40.8% to £84.2m (2007: £59.8m) and in the Wheels division 38.9% to £31.8m (2007: £22.9m)
- Revenue from share of joint venture up 69.2% at £4.4m (2007: £2.6m)
- Agricultural revenue up 46.1% to £116.6m (2007: £79.8m)
- Mining revenue up 29.0% to £81.8m (2007: £63.4m)
- Trading profit for the Group down 2.2% at £31.2m (2007: £31.9m)

**Statement by Mike Akers, Chief Executive**

**Introduction**

The Group continues to be the only specialist manufacturer of tracked and wheeled movement systems to the construction, agricultural and mining industries.

Reviewing 2008 in May 2009 reinforces the memory of exactly how dramatic the roller-coaster ride was during last year.

Before looking at performance for the year as a whole, I have extracted some elements from our regulatory announcements made during 2008 to highlight the pace of the changes.

In our 2007 review, reported at this time last year, we referred to the strength of order books in earthmoving, mining and agriculture with only the North American construction business declining and the Rest of the World construction being flat. We were concerned with a possible rapid escalation in steel prices and shortage of supply.

At the time of the AGM in June 2008 we had continued to see strong markets for agriculture and earthmoving wheels – the concerns for steel had been confirmed and we were facing draconian price increases and contracts being broken by suppliers with the result being reduction in margin as steel price increases were passed through either incompletely or with a time delay.
The Interim Report, issued in July 2008, reflected the continued strengths being seen in agriculture and earthmoving with construction declining again, particularly in North America. First-half profitability had fallen as a result of the pricing time lag, but we still saw real sales volumes ahead of 2007 (Wheels volumes were up compared to 2007, but Undercarriage volumes were down). We predicted margins advancing as price increases were achieved.

It was clear that the markets and pricing recovery potential in the Wheels business was better at this time than in Undercarriages and we retained some confidence that these markets would not be so significantly affected by the global malaise.

Nonetheless, we started a programme of stock, overhead, and input material reductions, anticipating further potential falls in order levels and concentrating on preserving cash.

The agricultural business remained very resilient and even in December 2008, our customers were forecasting increases in sales in 2009. We, however, discounted these substantially and continued the programme of stock and overhead reduction throughout the business which we started in September 2008. When we reported in early December, the business was already deep into a programme of scaling back which we believed would see us in good stead throughout this, the worst recession any of us in this Group has seen.

In the current situation, your Board believes that the business will be well placed to take advantage of opportunities in our industry as markets recover.

**Results**

Despite the near turmoil described in the introduction, the Group produced record revenue of £452.3m (2007:£385.8m). This was an increase of 17.2% over 2007, but was very significantly affected by the move in exchange rates, the impact of which is clearly set out in note 2.

The difference in performance of the two divisions was quite extreme, but this deviation is expected to be temporary.

Our Wheels division had an outstanding year with revenue (including share of joint venture) at £197.2m (2007: £144.8m) producing a record trading profit (excluding share of joint venture) of £22.6m (2007: £10.7m).

In contrast, the Undercarriage division had a challenging and difficult year. The reduction in volumes was felt much more strongly as also was the effect of material price escalation and the lag in recovery. The Undercarriage division accounted for revenue of £259.5m (2007: £243.6m) and recorded trading profit of £8.6m (2007: £21.2m).

Overall, Group trading profit was 2.2% below that of 2007 at £31.2m (2007: £31.9m). The impact of significant one off items, (largely relating to restructuring and movements in fair value of exchange contracts), left operating profit at £23.1m (2007: £30.2m), pre-tax profit at £9.6m (2007: £21.5m) and the post-tax profit for the year at £5.5m (2007: £14.3m).

Basic earnings per share at 6.62p (2007:17.32p) was down 61.8% on 2007, however, the pre-exceptional level was 13.43p per share (2007: 18.78p), down 28.5%.

The Group's net cash inflow from operating activities was £22.6m, down by 36.3% on 2007 (2007:£35.5m).

One impact of the dramatic change in direction of some of our markets during the year was an almost overnight swing from a shortage of supply of raw materials, to a major overstock. Changing the Group's focus towards stock reduction in these conditions and in industries with traditionally long lead times, was very demanding. Fortunately, we started the programme of lead time reduction in the Undercarriage division some time ago and were able to adapt this to drive the necessary stock reduction.

In all parts of the Group, we cut back raw material input in advance of customer cutbacks and eliminated all but essential health and safety and quality related capital expenditure. Despite early action in these areas, there exists a significant time delay before the impact is felt in the Group's cash position.

Net debt at the year end was £158.2m (2007: £120.2m). This again was significantly impacted by exchange rates; net debt at 2007 exchange rates would be £121.5m, as the majority of the Group's debt is in Euros, reflecting the Group's trading activities being heavily skewed to the Euro zone. The impact of exchange rates on net debt is further explained in note 2.

The Group's property, plant and equipment had a net book value of £171.0m (2007: £140.0m) being mainly freehold land and buildings, and plant and machinery.

**Operations**

The global downturn in industrial activity has not changed the outstanding quality of our physical assets and human resources. The Group has manufacturing plants in Europe, South America, North America and Australia, many of which command major market shares in industry sectors with a high cost of entry and significant shipping cost barriers for non-indigenous manufacturers.

The Group's technical excellence continues to ensure that its sales are dependant not only on price and quality, but the ability of our engineers to 'design & build' unique solutions to meet our customers' needs.

**Wheels division**

Our agricultural Wheels business had a strong order book throughout the year, with cutbacks only starting to become apparent in December 2008.

Our large agricultural wheel factory located in Northern Italy serves the major manufacturers of tractors and combine harvesters. Demand for these products has been generally at very high levels, and, at the same time, the horsepower and therefore the size of wheels and tyres, has been increasing. Consequently in 2007 this put considerable pressure on our manufacturing capacity. In August 2008, we completed the installation of our new rim-line with robotic handling which has relieved the capacity pressure, increased our flexibility and set a new standard for the manufacture of agricultural rims.

Volume was also high in our French and Turkish (joint venture) agricultural wheel factories and despite pressure on material pricing and supply, we were able to give customers an outstanding service throughout the year.

The European earthmoving wheel business located in Kidderminster, UK, also saw volumes at very high levels through the first nine months of the year; however, the final quarter decline was very dramatic. With the cooperation of trade unions and suppliers, the management team has been able to restructure the business efficiently and effectively to deal with much lower levels of volume.

Our operations in Australia did not see any significant impact in volumes during the year and this continues to be a potential area of growth, particularly in the OVM giant mining wheels, where supply agreements are being finalised with Caterpillar.

Our operations in Chile and Peru were also almost unaffected to the end of the year under review.

We had expected reductions in volume in the above three operational territories and therefore made substantial cost reductions and cash conservation plans with the emphasis moving from expansion to caution.

Although not a part of our Wheels division, our Associate Company, Wheels India Limited ('Wheels India'), in which we hold a 35.9% equity stake has seen a dramatic shift in its fortunes. Wheels India provides a significant proportion of all types of wheels used in India. The truck and automotive sectors have been particularly badly hit and the Company has also been affected by exchange rate issues. The share of results recognised this year is shown in note 2 and shows our share of unfavourable movements in mark to market valuations on exchange rate contracts is £2.3m loss (2007: £0.2m profit).

We continue to see India as a significant focus for growth and believe that the current market setbacks will not damage the basic fabric of the business.

**Undercarriage division**

Our Undercarriage division certainly has had a tough year. Volume in manufacturing was already depressed with the reduction in sales into North America.

Reductions in capacity and a plant closure were planned and effected early in the 2008 year, but these did not fully compensate for the further volume reductions experienced in the third and more dramatically, the fourth quarter of 2008.

In places where markets remained strong, we had the additional complications of very difficult supply conditions for steel. The Undercarriage division buys a wider range of steels than the Wheel division and has longer lead times. There is also a wider range of end product types and dimensions within each material type and so ‘take it or leave it’ price increases and quantity allocation from steel suppliers does not lead to efficient operation.

Our customers for undercarriage were to an extent receptive to our need for input cost recovery, but the wider range of customers along with other factors meant that we were slower in recovering margin.

By the time this was done, the volume decline was beginning and customers again were looking for the return to earlier price levels as steel prices collapsed. We have generally been able to convince major customers that we ordered steel at the high prices to meet their schedules and that these prices must be honoured until stocks have washed through. Whilst the operating environment was difficult, we continued our programme of change in the Undercarriage division.

The focus on a European business based on engineering excellence and giving our major customers a ‘design & build’ solution for their complete undercarriage needs, has continued.

We have moved further to create a ‘Centre of Excellence’ for engineering in our facility at Gevelsberg, Germany, with fully assembled frame business supplied from there and from Intertractor Americas location in Elkhorn, Wisconsin. This engineering resource is able to focus on large scale applications and we are also expecting to move our manufacturing facilities in a similar direction.

Since acquisition in 2005 we have created a very efficient and competitive manufacturing operation in Atibaia, Brazil, making smaller components for undercarriage vehicles.

The Italian manufacturing plants are being re-engineered to focus on mid to large range product with a more flexible process system using less work in progress with shorter lead times.

Our plans for a manufacturing facility in China supporting our European and American Original Equipment Manufacturers (OEM’s) in their Asian build facilities are complete – the Chinese Government approvals are in place, as is the factory building. The pace of this development may be moderated by the impact of the global recession, but it remains an essential part of our plan for a balanced undercarriage business.

Other developments on which we have reported in the past – such as mining and service centres, are working well and will be a blue print for the future.

In all, the Undercarriage division has been transformed since its acquisition by Titan Europe on 29 December 2005.

**Revenue by geographical destination and market (including share of joint venture)**

| | **Unaudited Year ended 31 December 2008 £m** | **Unaudited Year ended 31 December 2008 at 2007 rates £m** | **Year ended 31 December 2007 £m** |
|---|---|---|---|
| **Destination** | | | |
| UK | **20.7** | **19.0** | 24.1 |
| Europe | **264.8** | **233.7** | 221.3 |
| North America | **55.2** | **50.3** | 60.4 |
| South America | **28.6** | **24.9** | 19.2 |
| Rest of the World | **87.4** | **76.9** | 63.5 |
| **Total revenue** | **456.7** | **404.8** | **388.5** |

| | **Unaudited Year ended 31 December 2008 £m** | **Unaudited Year ended 31 December 2008 at 2007 rates £m** | **Year ended 31 December 2007 £m** |
|---|---|---|---|
| **Market** | | | |
| Agricultural | **116.6** | **101.9** | 79.8 |
| Construction | **251.4** | **225.9** | 242.1 |
| Mining | **81.8** | **71.4** | 63.4 |
| Other | **6.9** | **5.6** | 3.2 |
| **Total revenue** | **456.7** | **404.8** | **388.5** |

**Revenue and trading profit by division**

| | **Unaudited Year ended 31 December 2008 £'000** | **Unaudited Year ended 31 December 2008 at 2007 rates £'000** | **Year ended 31 December 2007 £'000** |
|---|---|---|---|
| **Revenue** | | | |
| Wheels (including share of joint venture) | **197,224** | **178,598** | 144,824 |
| Undercarriages | **259,526** | **226,248** | 243,634 |
| Revenue including share of joint venture | **456,750** | **404,846** | 388,458 |
| Less share of joint venture | **(4,437)** | **(4,064)** | (2,644) |
| **Group revenue** | **452,313** | **400,782** | **385,814** |
| Trading profit | | | |
| Wheels (excluding share of joint venture) | **22,571** | **20,735** | 10,657 |
| As a percentage of revenue | **11.7%** | **11.9%** | 7.5% |
| Undercarriages | **8,593** | **7,760** | 21,212 |
| As a percentage of revenue | **3.3%** | **3.4%** | 8.7% |
| **Group trading profit** | **31,164** | **28,495** | **31,869** |

**Dividend**

As we indicated in our trading update on 20 February 2009, the Board is not proposing a final dividend. The interim dividend of 2.17p makes a total for the year of 2.17p (2007: 6.50p). As part of the new amendment and restatement agreement with our primary bankers Banca Intesa SpA and Unicredit SpA no dividend distributions will be made until after the Company has re-commenced payments of the loan in January 2011 and are subject to the Company achieving a leverage ratio of 3.5:1 or less.

**2009 Outlook**

Timing in market conditions, material pricing and product price recovery all acted against the Undercarriage division in 2008, but we expect to see a considerable levelling out in 2009. Unfortunately in 2009, it will be the Wheels division that will feel the impact of reduced volumes.

As reported in our February 2009 trading update, we have reduced our forecast sales volumes for the Group for the year to 30% below those achieved in 2008.

In light of this reduction, we are continuing our programme of scaling back material inputs, manufacturing, people and investment plans in order to re-align our cost base to reflect the more challenging markets our industry is experiencing. Fixed costs are being reduced throughout the Group but care is being taken to preserve the Group's resources and investment in engineering, quality and technical sales.

**Post year-end events**

*Substantial shareholdings*

During January 2009, the Company was informed that Mefro Wheels GmbH had increased their shareholding in the Company to 24,788,853 ordinary shares, representing 29.81 per cent of the issued share capital of the Company. In the same month the Company was informed that Titan Luxembourg Sarl, a subsidiary of Titan International, Inc., bought 4,687,197 ordinary shares in the Company. Following these purchases, Titan Luxembourg Sarl has an interest in a total of 18,993,821 ordinary shares representing approximately 22.89 per cent. of the issued share capital of the Company.

*Renegotiation of banking facilities*

During May 2009, the Group has renegotiated the Group's banking facilities with Banca Intesa SpA and Unicredit SpA. The revised facility agreement for €110,000,000 includes no further repayments of capital in 2009 and 2010, the first payment will now be made in January 2011 and the final repayment is extended by two years to October 2015. The agreement includes revised covenants reflecting the Group's revised business plan. The substantive agreement (amendment and restatement agreement relating to the ITO and ITM €110.0m facilities agreement) was signed on 19 May 2009.

The ageing profile of the debt includes £29,205,000 classified within current liabilities, which as a result of the renegotiation, will be re-classified as "non-current" in 2009.

## Consolidated income statement

For the year ended 31 December 2008

| | Note | 2008 Unaudited £'000 | 2007 £'000 |
|---|---|---|---|
| **Revenue** | | **452,313** | 385,814 |
| **Trading profit** | | **31,164** | 31,869 |
| Post-employment scheme curtailment | | **-** | 1,258 |
| Restructuring and rationalisation costs | 3 | **(3,944)** | - |
| Movement on fair value of forward foreign exchange contracts | | **(4,110)** | (2,913) |
| **Profit from operations** | | **23,110** | 30,214 |
| Financing costs | 6 | **(10,511)** | (8,911) |
| Bond premium redemption costs | | **-** | (24) |
| Finance charges | 7 | **(615)** | (1,004) |
| Other finance charges | 8 | **(1,335)** | (301) |
| Net financing costs | | **(12,461)** | (10,240) |
| Share of (loss)/profit of associate and joint venture | 5 | **(1,014)** | 1,501 |
| **Profit before income tax** | | **9,635** | 21,475 |
| Income tax expense | 9 | **(4,144)** | (7,133) |
| **Profit for the year** | | **5,491** | 14,342 |
| | | | |
| Attributable to: Equity holders of the Company | | **5,491** | 14,342 |
| **Earnings per 40p ordinary share** | | | |
| Basic | 3 | **6.62p** | 17.32p |
| Diluted | 3 | **6.62p** | 17.13p |
| Basic excluding exceptional items * | 3 | **13.43p** | 18.78p |
| Diluted excluding exceptional items * | 3 | **13.43p** | 18.58p |
| **Dividends** | | | |
| Payments to shareholders | | **5,393** | 5,110 |

*This excludes post-employment scheme curtailment, restructuring and rationalisation costs, movement on fair value of forward foreign exchange contracts and bond premium redemption costs.

## Consolidated statement of recognised income and expense

For the year ended 31 December 2008

| | 2008 Unaudited £'000 | 2007 £'000 |
|---|---|---|
| Net actuarial (losses)/gains on pension liabilities | **(444)** | 292 |
| Tax on net actuarial (losses)/gains on pension liabilities | **125** | (170) |
| Hedge accounting on financial instruments | **(5,145)** | 477 |
| Tax on hedge accounting on financial instruments | **1,416** | (131) |
| Movement in translation adjustment | **18,539** | 6,752 |
| **Net income recognised directly in equity** | **14,491** | 7,220 |
| Profit for the year | **5,491** | 14,342 |
| **Total recognised income for the year** | **19,982** | 21,562 |
| | | |
| Attributable to: Equity holders of the Company | **19,982** | 21,562 |

## Consolidated balance sheet
As at 31 December 2008

| | **2008 Unaudited £'000** | 2007 £'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **171,018** | 140,021 |
| Intangible assets | **54,973** | 55,437 |
| Investments | **14,956** | 15,430 |
| Deferred taxes | **31,748** | 26,409 |
| Derivative financial instruments | **-** | 78 |
| Trade and other receivables | **389** | 963 |
| **Total non-current assets** | **273,084** | 238,338 |
| **Current assets** | | |
| Inventories | **127,124** | 98,489 |
| Trade and other receivables | **96,816** | 83,627 |
| Income tax recoverable | **1,815** | 854 |
| Derivative financial instruments | **-** | 307 |
| Cash and cash equivalents | **34,258** | 39,643 |
| Held for sale assets | **4,647** | - |
| **Total current assets** | **264,660** | 222,920 |
| **Total assets** | **537,744** | 461,258 |
| | | |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Borrowings | **115,085** | 82,984 |
| Trade and other payables | **3,903** | 3,513 |
| Income tax and other tax payable | **2** | 5 |
| Derivative financial instruments | **1,534** | 94 |
| Deferred taxes | **19,344** | 18,788 |
| Employee benefits | **14,915** | 12,724 |
| Provisions | **964** | 1,213 |
| **Total non-current liabilities** | **155,747** | 119,321 |
| **Current liabilities** | | |
| Borrowings | **77,998** | 77,365 |
| Trade and other payables | **113,942** | 93,534 |
| Income tax and other tax payable | **8,382** | 6,029 |
| Derivative financial instruments | **3,633** | 2,948 |
| Employee benefits | **1,019** | 1,197 |
| Provisions | **2,556** | 1,453 |
| **Total current liabilities** | **207,530** | 182,526 |
| **Total liabilities** | **363,277** | 301,847 |
| **Net assets** | **174,467** | 159,411 |
| | | |
| **Equity** | | |
| Issued share capital | **33,192** | 33,128 |
| Share premium account | **77,248** | 77,112 |
| Other reserves | **6,458** | 6,458 |
| Retained earnings | **57,569** | 42,713 |
| **Total shareholders' funds** | **174,467** | 159,411 |

## Consolidated cash flow statement

For the year ended 31 December 2008

| | **2008** | 2007 |
|---|---|---|
| | **Unaudited** | |
| | **£'000** | £'000 |
| Profit for the year | **5,491** | 14,342 |
| Adjustments for: | | |
| Depreciation | **16,051** | 12,999 |
| Amortisation | **840** | 436 |
| Profit on sale of property, plant and equipment and other investments | **(611)** | (765) |
| Loss on re-measurement of held for sale assets | **336** | - |
| Forward foreign exchange contracts | **4,110** | 2,913 |
| Net finance expense | **11,293** | 10,647 |
| Foreign exchange losses/(gains) | **1,168** | (619) |
| Share of (loss)/profit of associate and joint venture | **1,014** | (1,501) |
| Income tax expense | **4,144** | 7,133 |
| **Operating cash flow before changes in working capital** | **43,836** | 45,585 |
| (Increase)/decrease in inventories | **(2,400)** | 1,936 |
| Decrease in trade and other receivables | **7,083** | 15,672 |
| Decrease in trade and other payables | **(5,223)** | (8,605) |
| Decrease in provisions and employee benefits | **(2,992)** | (5,317) |
| Financial derivatives | **(7,025)** | 272 |
| Other non-cash changes | **1,540** | 918 |
| **Cash generated from operations** | **34,819** | 50,461 |
| Interest paid | **(8,920)** | (10,220) |
| Income taxes paid | **(3,335)** | (4,780) |
| **Net cash generated from operating activities** | **22,564** | 35,461 |
| Proceeds from sales of property, plant and equipment | **640** | 660 |
| Dividends received | **306** | 266 |
| Acquisition of subsidiary, net of cash acquired | **-** | (1,319) |
| Investments in joint venture | **-** | (2,779) |
| Sale of other investments | **-** | 1,231 |
| Purchases of property, plant and equipment | **(14,577)** | (15,932) |
| Purchases of intangible assets | **(1,709)** | (523) |
| **Net cash used in investing activities** | **(15,340)** | (18,396) |
| **Cash flows from financing activities** | | |
| Proceeds from the issue of share capital | **200** | - |
| (Repayment of)/increase in borrowings | **(20,773)** | 4,040 |
| Payment of finance lease liabilities | **(4,375)** | (2,588) |
| Dividends paid | **(5,393)** | (5,110) |
| **Net cash used in financing activities** | **(30,341)** | (3,658) |
| Net (decrease)/increase in cash and cash equivalents | **(23,117)** | 13,407 |
| Cash and cash equivalents at the beginning of the year | **26,275** | 11,071 |
| Effect of exchange rate fluctuations on cash held | **3,539** | 1,797 |
| **Cash and cash equivalents at the end of the year** | **6,697** | 26,275 |

**Reconciliation of cash flow to net debt**
for the year ended 31 December 2008

| | | Unaudited | | | |
|---|---|---|---|---|---|
| | At 1 January 2008 | Cash flow | Other non-cash changes | Exchange movements | **At 31 December 2008** |
| | £000 | £000 | £000 | £000 | **£000** |
| Cash at bank and in hand | 39,643 | (12,631) | - | 7,246 | **34,258** |
| Overdrafts | (13,368) | (10,486) | - | (3,707) | **(27,561)** |
| | 26,275 | (23,117) | - | 3,539 | **6,697** |
| Borrowings due after one year | (76,460) | (3,761) | (1,727) | (25,663) | **(107,611)** |
| Borrowings due within one year | (59,548) | 24,534 | (3) | (12,055) | **(47,072)** |
| Finance leases due after one year | (6,524) | 1,224 | (498) | (1,676) | **(7,474)** |
| Finance leases due within one year | (4,449) | 3,151 | (1,190) | (877) | **(3,365)** |
| Liquid resources | 507 | 19 | - | 134 | **660** |
| **Net debt** | (120,199) | 2,050 | (3,418) | (36,598) | **(158,165)** |

## Notes to the Preliminary Announcement

### 1. Basis of preparation

The financial information set out in this announcement does not constitute Statutory Accounts within the meaning of Section 240 (5) of the Companies Act 1985. The statutory accounts have not been delivered to the Registrar of Companies but will be delivered in due course.

The Group's auditors have not yet reported on the 2008 accounts. The statutory accounts for the year ended 31 December 2007, prepared under IFRS, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The auditors' report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

The Group consolidated financial statements have been prepared on a going concern basis. The directors have reviewed the funding position of the Group and the Company in light of the re-negotiated facilities with Banca Intesa/Unicredit. In doing so the directors have considered and forecasted the cash flow requirements of the Group and the Company arising from operational, investment and financing activities and they believe it is appropriate to prepare these financial statements on a going concern basis.

### 2. Foreign Currency

The key currencies to which the Group is exposed and the relevant exchange rates are detailed below:

| | **2008** | **2007** |
|---|---|---|
| **Euro** | | |
| Average | 1.260 | 1.462 |
| Closing | 1.027 | 1.357 |
| **US Dollar** | | |
| Average | 1.855 | 2.002 |
| Closing | 1.448 | 1.997 |
| **Brazilian Real** | | |
| Average | 3.368 | 3.901 |
| Closing | 3.411 | 3.543 |
| **Australian Dollar** | | |
| Average | 2.189 | 2.391 |
| Closing | 2.098 | 2.281 |

**Notes to the Preliminary Announcement (continued)**

The translation effect on the Group's 2008 balance sheet and income statement as a consequence of the weakening of sterling is shown in the following table:

| | **Unaudited**<br>**At year-end**<br>**31 December 2008 rates** | **Unaudited**<br>**At year-end**<br>**31 December 2007 rates** | **Unaudited**<br>**Variance** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Total non-current assets | 273,084 | 230,574 | 42,510 |
| Total current assets | 264,660 | 209,390 | 55,270 |
| **Total assets** | **537,744** | **439,964** | **97,780** |
| Total non-current liabilities | 155,747 | 119,874 | 35,873 |
| Total current liabilities | 207,530 | 165,978 | 41,552 |
| **Total liabilities** | **363,277** | **285,852** | **77,425** |
| **Net assets** | **174,467** | **154,112** | **20,355** |
| **Total shareholders equity** | **174,467** | **154,112** | **20,355** |
| | | | |
| **Net debt** | **(158,165)** | **(121,500)** | **(36,665)** |

| | **Unaudited**<br>**At average 2008 rates** | **Unaudited**<br>**At average 2007 rates** | **Unaudited**<br>**Variance** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Revenue | 452,313 | 400,782 | 51,531 |
| Trading profit | 31,164 | 28,495 | 2,669 |
| Profit from operations | 23,110 | 20,949 | 2,161 |
| Profit before income tax | 9,635 | 9,322 | 313 |
| **Profit for the year** | **5,491** | **5,547** | **(56)** |

**Notes to the Preliminary Announcement (continued)**

## 3. Earnings per share

The weighted average number of shares in issue used in the basic earnings per share calculation may be reconciled to the number used in the diluted earnings per ordinary share calculation as follows:-

| Weighted average number | **Unaudited Year ended 31 December 2008** | Year ended 31 December 2007 |
|---|---|---|
| Basic earnings per share denominator | **82,912,460** | 82,820,624 |
| Issuable on conversion of options | **-** | 890,559 |
| Diluted earnings per share denominator | **82,912,460** | 83,711,183 |

No share options have a dilutive effect on the earnings per share as the share price is lower than the exercise price of the options.

The earnings to which the earnings per share calculation has been applied are as follows:

| | **Unaudited Year ended 31 December 2008 £'000** | Year ended 31 December 2007 £'000 |
|---|---|---|
| Earnings attributable to ordinary shareholders | **5,491** | 14,342 |
| Significant one-off items (net of tax): | | |
| Restructuring and rationalisation costs | **2,708** | - |
| Bond premium redemption costs | **-** | 17 |
| Post-employment scheme curtailment | **-** | (843) |
| Movements on fair value of forward foreign exchange contracts | **2,939** | 2,039 |
| Earnings attributable to ordinary shareholders excluding exceptional costs | **11,138** | 15,555 |

**Notes to the Preliminary Announcement (continued)**

## 4. Restructuring and rationalisation costs

As part of the 2008 rationalisation and restructuring of the Undercarriage division costs have been incurred in the year of £3,648,000. This is primarily for major reduction in the Potenza plant (Southern Italy) and the closure of the Varese plant (Northern Italy), which includes £336,000 of impairment relating to held for sale assets.

In addition, management have taken action to scale back material input, manufacturing, people and investment plans to match the more difficult market conditions. As a result, several companies in the Group have incurred or provided for redundancy costs in the year, which represent charges for contractual severance and other employee related exit benefits, the charge to the income statement for 2008 in respect of this being £541,000, £296,000 of this charge has been incurred by the Wheels division and the remainder by the Undercarriage division. Included in accruals at the year end is £422,000 of costs recognised in 2008 which will be paid in 2009.

Depending on the impact of declines in global markets further costs of this nature may be incurred during 2009.

**Notes to the Preliminary Announcement (continued)**

## 5. Share of (loss)/profit of associate and joint venture

Management consider the underlying performance of the Group to exclude exceptional items, which are those that are individually significant either by size or nature. IAS 28 requires that the investor's share of the profit or loss of associate is presented as a single line in the income statement. Management consider that the movement on the fair value of forward exchange contracts to be an exceptional item for the purpose of reporting the results of Titan Europe Plc. Therefore, to reflect the underlying results of the Group, the Group's share of the movement in the fair value of forward exchange contracts held by Wheels India Limited should be excluded from the underlying results.

| | Unaudited | Unaudited | Unaudited |
|---|---|---|---|
| | | At year-end | |
| | 31 December 2008 | 31 December 2007 rates | 31 December 2007 |
| | £'000 | £'000 | £'000 |
| Revenue (excluding share of joint venture) | 452,313 | 400,782 | 385,814 |
| **Trading profit** | **31,164** | **28,495** | **31,869** |
| Share of profit of associate and joint venture (excluding exceptional costs)* | 1,235 | 1,197 | 1,258 |
| **EBIT pre exceptional costs** | **32,399** | **29,692** | **33,127** |
| Financing costs | (12,461) | (10,624) | (10,240) |
| **PBT pre exceptional costs** | **19,938** | **19,068** | **22,887** |
| | | | |
| EBIT pre exceptional costs % | 7.2% | 7.4% | 8.6% |
| PBT pre exceptional costs% | 4.4% | 4.8% | 5.9% |

* A reconciliation of share of profit of associate and joint venture is outlined below:

| | Unaudited | Unaudited | Unaudited |
|---|---|---|---|
| | | At year-end | |
| | 31 December 2008 | 31 December 2007 rates | 31 December 2007 |
| | £'000 | £'000 | £'000 |
| Share of profit of associate and joint venture (excluding exceptional costs) | 1,235 | 1,197 | 1,258 |
| Movement on fair value of forward exchange contracts | (2,249) | (2,190) | 243 |
| **Share of (loss) profit of associates and joint venture** | **(1,014)** | **(993)** | **1,501** |

**Notes to the Preliminary Announcement (continued)**

## 6. Financing expenses

| | **2008 Unaudited £'000** | 2007 £'000 |
|---|---|---|
| Net interest expense | **(9,343)** | (9,530) |
| Finance foreign exchange (expense)/income | **(1,168)** | 619 |
| | **(10,511)** | (8,911) |

## 7. Finance charges

| | **2008 Unaudited £'000** | 2007 £'000 |
|---|---|---|
| Interest on defined benefit pension plans and long term employee benefit schemes | **(708)** | (676) |
| Net (loss)/profit on re-measurement of derivatives to fair value | **93** | (328) |
| | **(615)** | (1,004) |

## 8. Other finance charges

| | **2008 Unaudited £'000** | 2007 £'000 |
|---|---|---|
| Unwinding of the fair value adjustment on the Accordo Quadro loans | **(1,335)** | (1,151) |
| Unwinding of fair value adjustments on the ITM EuroBond | **-** | 850 |
| | **(1,335)** | (301) |

## 9. Income tax expense

| | **2008 Unaudited £'000** | 2007 £'000 |
|---|---|---|
| **Current Tax :** | | |
| UK corporation tax | **1,278** | 759 |
| Foreign corporation tax | **2,980** | 3,352 |
| Prior year adjustments | **(761)** | (191) |
| | **3,497** | 3,920 |
| **Deferred tax :** | | |
| Origination and reversal of temporary differences | **647** | 3,213 |
| **Income tax expense** | **4,144** | 7,133 |

The tax assessed for the year is higher (2007: higher) than the standard rate of corporation tax in the United Kingdom of 28.5% (2007:30.0%).

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