

Smart engineering for extreme environments.

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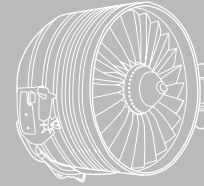
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Around 3,700 employees. Four integrated divisions. One Meggitt.

Aerospace Systems

90% of the world's aircraft carry the engine vibration monitoring systems we have developed over half a century. Today, we enjoy a wider diagnostic capability, evidenced by our recent launch of the world's first, comprehensive, on-engine condition monitoring unit for the A380 Airbus. With our electronics, this unit adds parameters of temperature, pressure and speed from digital engine control systems to our oil debris and vibration analysis tools, sharpening maintenance scheduling and enhancing the readiness of mission critical aerospace applications.

The division's electronic cockpit displays are compact, information-rich yet optically-clear, and function in extreme conditions. With 2002's acquisition of best-in-class air data computers, specialised avionics sensors and data acquisition units, discrete flight instrumentation is now being integrated into comprehensive, higher value systems for military aircraft.

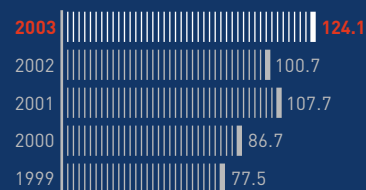


£124.1m

Turnover 2003

31%

Percentage of group turnover



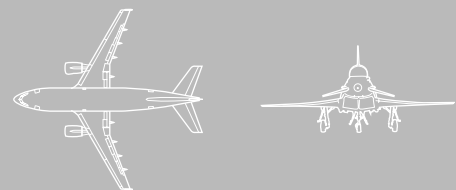
Aerospace Equipment

The flight time of our fire detection systems, which have never missed a true fire warning, exceeds one billion hours. Our high speed fuel control and shut-off valves operate in less than 50 milliseconds at extreme temperatures. Our unique Bleed Air Leak Detection system is now on the C5 jet and Aermacchi M346 jet trainer and our tank pressurisation ducts on the Space Shuttle. Our quick disconnect products, used on interconnecting lines involving corrosive and other exotic fluids found on military aircraft and space vehicles, are made to the highest specifications, ready to be uncoupled at speed with zero leakage and air inclusion.

When you consider that our products transmit signals, help control engine clearance, regulate

de-icing, cool avionics, select landing gear, manage fuel and control cabin pressure and temperature, you can see why our products and systems—also repaired and replaced by us over the average 30-year life of an aircraft—are on virtually every aircraft flying today. We work on the ground, too: on transfer cooling solutions involving proprietary printed circuit heat exchange technology, and fire and gas detection systems for industrial applications.

The newly acquired, high performance products of Meggitt Airdynamics will increase the military-grade content of the division's environmental control systems. In turn, with access to complementary products across the division, Meggitt Airdynamics will advance its systems offer.

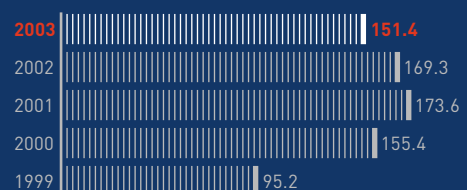


£151.4m

Turnover 2003

38%

Percentage of group turnover



Meggitt is more than the responsible custodian of first-class, operationally independent businesses.

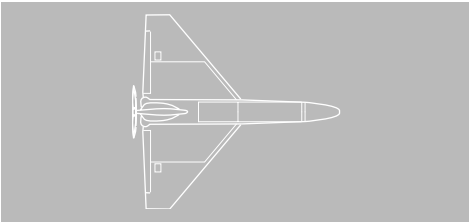
Within or across the four divisions through which we manage them, you'll find Meggitt's operating units increasingly marching in step; sharing research,

engineering, operational and marketing expertise; and orchestrating technical solutions of increasingly high value to customers—in ways they want them delivered.

Defence Systems

43 countries favour our aerial targets, electronic scoring systems and unmanned air vehicles, which are used to train personnel and develop and evaluate anti-aircraft weapon systems. Turnkey systems and services add value to these products. Our aero-mechanical launch and recovery systems—deploying targets or towed decoys to foil missile threats—are installed on numerous military aircraft the world over. These innovative proprietary technologies are protected and developed through total systems control, guaranteeing a high degree of customisation for each client.

Two acquisitions in 2003 widened the scope of the division's offer. Caswell International extended our targetry expertise to ground-based stationary and mobile target equipment for small arms and armour training. Meggitt Western Design enhanced our weapons systems development capability with its world class, automated ammunition handling technology and environmental control systems.

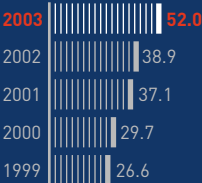


£52.0m

Turnover 2003

13%

Percentage of group turnover

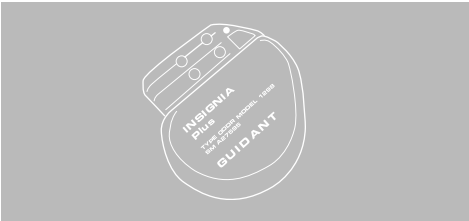


Electronics

We design and manufacture high-value, active sensors for mission critical applications. Our markets are characterised by the need for absolute measurement from high performance products that function in demanding environments.

Our customers, who operate in regulated business sectors of the medical, flight, military and transportation safety markets, demand the highest standards of product reliability. After all, life can depend on the integrity of systems that include Meggitt technology. At one end of the spectrum, our sensor technology developments support new ideas in human condition monitoring like *in vitro* drug delivery systems and blood pressure monitoring and, at the other, networked intelligent sensors that guide orbiting satellites.

The division also produces high volume, position sensors, potentiometers and encoders for a diverse range of automotive and domestic applications including audio volume and tuning control, climate management and airflow distribution, and equipment positioning and mode switching.

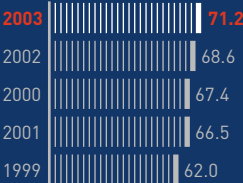


£71.2m

Turnover 2003

18%

Percentage of group turnover



Smart engineering for extreme environments...

We make highly specialised products for the aerospace, defence and electronics industries. They endure extremes of temperature, impact, vibration and contamination—and often involve a critical mission. In other words, without our products, an entire system can fail.

And because electronics are integral to our engineering solutions, Meggitt products are smart, combining essential functionality with intelligence.

Our sensors continuously monitor aircraft engines and industrial gas turbines to detect the earliest indication of impending—and potentially catastrophic—failure. Other sensors provide critical data on the

activity and position of the human body to the heart rate control system within a life-sustaining pacemaker, and provide the capability to detect, track and treat degenerative disease. Our crash test sensors deliver invaluable data on the strength, durability and life saving characteristics of automobile design.

Designed and qualified for mission critical applications, Meggitt's high performance cabling systems can operate in temperatures spanning -271°C to over 1300°C. Our fire proof cable can provide continuous power and control signals throughout the most severe conditions. Like our fire barrier seals and fire detectors, this cable provides critical safety margins for complex systems

such as nuclear power plants and aircraft engine nacelles where reliability and survivability cannot be compromised.

Meggitt cockpit displays endure aerodynamic and gunfire vibration, gravitational forces and roll rates that test the limit of human endurance, while our crash recorders work in the most extreme environments of all, retaining data after catastrophic impact and high temperature fires.

The ability to negotiate the rigorous regulations associated with the aerospace, space, defence, nuclear, power generation, transportation, medical and test engineering markets is also central to the Meggitt proposition.

...leading to record profits—the highest in Meggitt's history.

In 2003, we delivered another set of outstanding results.

We did this by maintaining investment in new products—even in depressed markets there are always customers for innovation.

We continued to take a balanced approach to market diversification within our chosen niches with a portfolio designed to offset demand changes in our primary aerospace and defence markets.

And we supported customers in other sectors hungry for the aerospace quality which characterises Meggitt's engineering-rich, information-oriented products.

We continued to integrate our divisions so that we can, as a group, manage the select core of customers that drive many of our businesses.

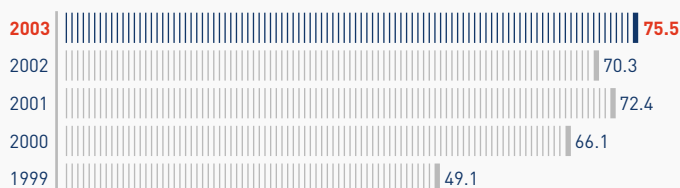
We realised intrinsic value from current operations and, through another year of

astute acquisitions, positioned ourselves to refresh core technologies, deliver new products and exploit new markets.

And that's how we will continue to deliver value to our customers—and the kind of returns to which Meggitt shareholders have become accustomed.

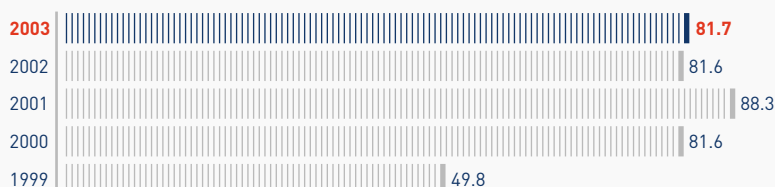
£75.5_m

Profit before tax, exceptional items and goodwill amortisation



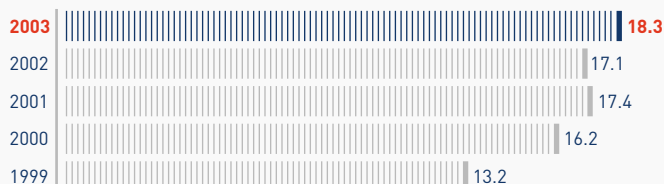
£81.7_m

Cash flow from operating activities



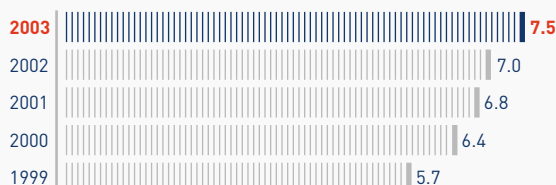
18.3_p

Earnings per share (IIMR basis)



7.5_p

Dividends per share



Chairman's Statement

Meggitt continued to forge ahead driven by a combination of strong military markets and recent highly successful acquisitions.

In 2003, profit before tax, exceptional items and goodwill amortisation was up 7% and would have been an impressive 19% had we not suffered £6.3 million adverse currency translation and £2.0 million additional pension cost. Meggitt continued its outstanding record of cash generation with cash flow, before acquisitions and disposals, of £40.8 million and the Board is proposing a 7% increase in the final dividend to 5.1 pence.

During 2003, Meggitt continued to build its defence business assisted by several acquisitions. Caswell International Corporation, acquired in April 2003, with its land-based targetry, complements Meggitt Defence Systems' target systems offering and opens up new markets for its unique target scoring systems. Western Design Howden Inc, acquired in December 2003 from Charter plc, gives Defence Systems a solid position in ground based fighting vehicles in the USA with its automated ammunition handling technology and environmental conditioning systems. Howden Aerodynamics Inc, also acquired in December 2003, has been integrated into the Aerospace Equipment business, extending its range of military products into fans, pumps and compressors.

The last few months have seen a number of changes to the Board. In January 2004, Stephen Young was appointed as Group Finance Director, replacing Chris Rickard who left the Group in December 2003. Stephen has held a number of senior financial positions including, most recently, Group Finance Director of Thistle Hotels plc. Previously he has been Group Finance Director of the Automobile Association and Group Finance Controller of Thorn EMI plc.

In January 2004, Peter Hill, a Chartered Engineer, was appointed to the Board as a non executive director. Peter is Chief Executive of the Laird Group PLC and was previously Head of Strategic Planning for BTR plc, before assuming senior corporate and Divisional President roles with Invensys plc.

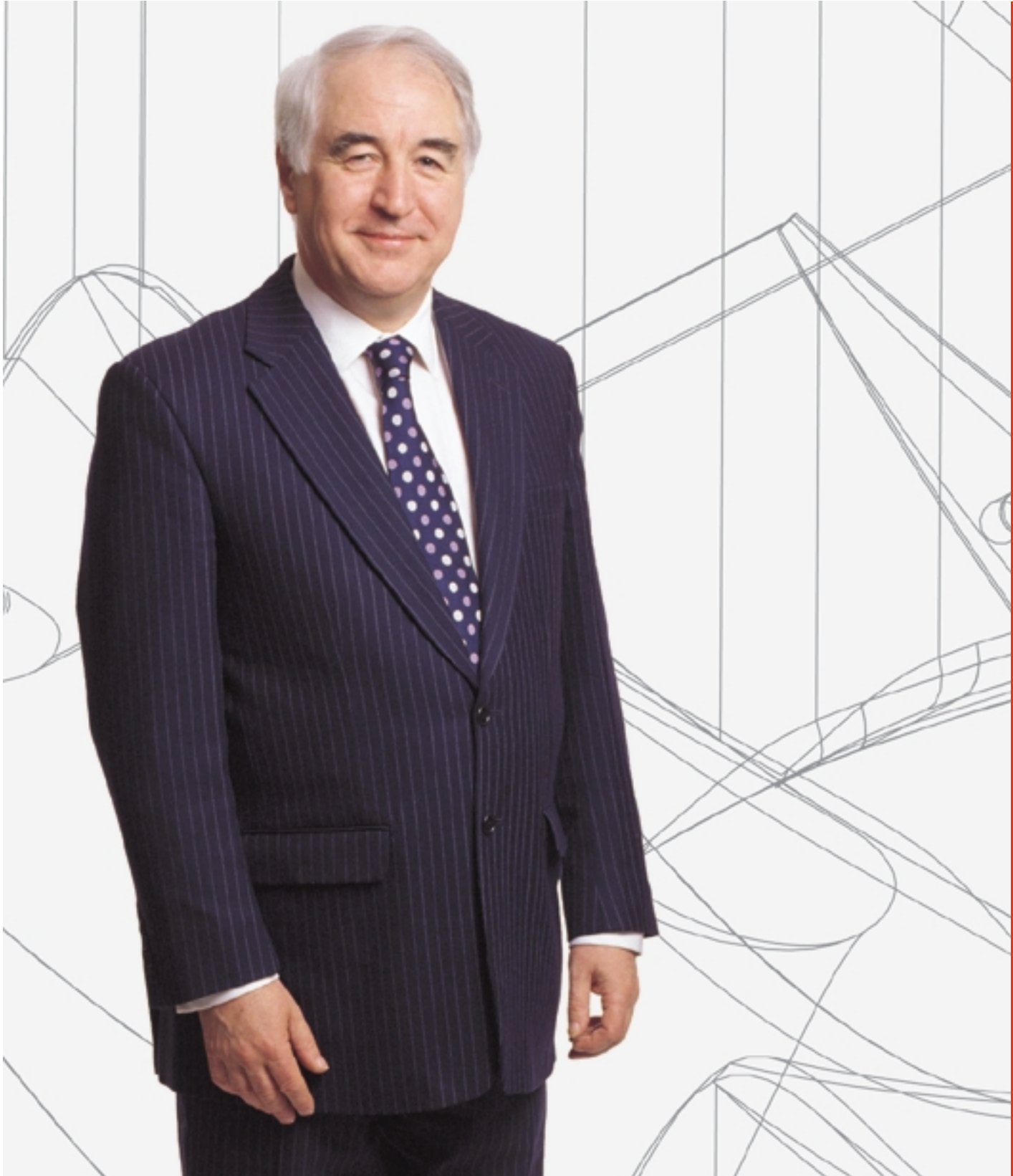
These appointments bring a wealth of experience from a number of companies and different sectors.

The outlook for 2004 looks much more encouraging for Meggitt than this time last year. There are signs that the civil market for spares and repairs is recovering following the war in Iraq and the scares associated with SARS. Military markets remain strong and our electronics businesses face a positive future.

I conclude by congratulating all our employees on their superb performance in 2003. In a testing commercial environment, all have played their role in supporting the growth strategy, delivering dependable shareholder returns. Thanks to them, Meggitt has maintained its impressive track record and I wish everyone all the best in the future.



Mike Stacey
Chairman



Chief Executive's Operating Review

Record profits

Results

In 2003, Meggitt PLC achieved record profits before exceptional items and goodwill amortisation of £75.5 million on sales of £402.4 million, leading to a final dividend of 5.1 pence. This result—the highest in our history—reinforces the Group's reputation as a stable, cash-generative entity that continues to perform, even in difficult market conditions.

Strategic fundamentals

This performance was based on strong financial disciplines and a range of strategic fundamentals: delivering proprietary products for profitable applications in the specialised areas of the aerospace, defence and electronics markets; maintaining market balance across military and civil interests, original equipment and spares and repairs; transferring core technology to non-traditional markets; investing substantially in people, product development and facilities to secure organic growth; and acquiring businesses that expand product niches and provide coherent multi-product offerings that simplify procurement.

Investing through acquisitions

In 2003, we spent a total of £20.0 million on research and development (5% of turnover); incurred capital expenditure of £10.3 million; and acquired businesses at a cost of £60.5 million. Our philosophy is to buy companies in areas complementary to our existing markets and products.

The acquisition of the CFM56-2/3 turbine clearance control (TCC) valve production line from General Electric for £17.2 million extends the range of extreme environment valves we have promoted for over a decade.

The defence-oriented acquisitions of Caswell International, acquired for £16.9 million, and two companies from Charter

Plc bought for £26.4 million—now Meggitt Western Design and Meggitt Airdynamics respectively—have delivered complementary technology and new market opportunities to our Defence Systems and Aerospace Equipment businesses.

Investing for organic growth

We launched further initiatives at the year-end with major capital investments for established Meggitt businesses. New local facilities for our UK-based polymers and composites and US-based sensors businesses are planned for completion by mid-2005. A US\$12.0 million investment in a new manufacturing facility in Xiamen, China will provide the Meggitt Group with access to low cost, highly skilled labour, a strategic sourcing location and enable us to provide local support for key customers operating in Asia. We aim to build the facility, recruit and train staff in 2004 and start production in 2005. Capital and revenue costs will be incurred during 2004 and 2005 and profits are expected from mid-2005.

Aerospace Systems

Divisional turnover increased by 23% (24% at constant exchange rates) due, largely, to 2002's purchase of air data and data acquisition units from BAE SYSTEMS and the Lodge aerospace sensors, transducers and igniter business. Both have performed in line with expectations.

We achieved several technology and product development milestones in engine condition monitoring. These systems are designed to monitor multiple engine parameters and minimise engine maintenance. During the year, the first prototype engine monitoring units and sensor packages were delivered to Rolls-Royce for the Airbus A380 Trent 900 engine for system integration. The prototype engine interface and

power management units, which link the engine monitoring unit and the avionics systems, were delivered to Airbus. We delivered the first production standard generic engine monitoring system for the Tupolev 334 aircraft. We completed the development of a radiation pyrometer for integration in Eurofighter engines—the first time that optical temperature measurement technology has fed directly into an engine's active control system. Initial studies for an advanced hot section diagnostics system—also designed to reduce maintenance cost—have been completed under contract to the US Navy for shipborne gas turbines. This programme will enable us to integrate temperature measurement equipment, oil debris monitoring, optical flame characterisation and optical pyrometer technology with complex data analysis.

Sales of solid state instruments were boosted by the delivery of Secondary Flight Display Systems to the US Air Force for the upgrade of the C-5A/B military transport aircraft. Production deliveries on the new three-inch solid state display have commenced and it has also been selected for several aircraft including the V-22, MH-47G and MH-60G helicopters and various export variants of the F-16.

Our leading position in general aviation autopilots continues with key OEMs such as Cirrus and Lancair, and was enhanced by winning the Eclipse small jet programme in January 2004 with our new advanced digital autopilot. At Eclipse's projected volumes, this programme is worth over US\$30.0 million in the next 10 years.

Supplementary Type Certificates from the Federal Aviation Administration were awarded for the Conquest II, Commander 690, Commander Jet Prop and the King Air aircraft for the MAGIC® display and digital

Chief Executive's Operating Review continued

autopilot systems, positioning them to achieve further market penetration in 2004.

The year concluded with Board sanction for a move to new premises for our US-based sensors facility in Manchester, New Hampshire.

Aerospace Equipment

Meggitt Aerospace Equipment's turnover reduced by 11%, due to the impact of currency translation (3% reduction at constant exchange rates) and volume reductions in the civil aerospace market. This decrease was partially offset by increases in military aftermarket sales. The division boosted its capability with two acquisitions.

In 2003, we bought the CFM56-2/3 turbine clearance control (TCC) valve production line from General Electric, making us the leading technology supplier of extreme environment valves centred on improving engine efficiency in civil and military aviation and ground-based turbines. The division also acquired Howden Airdynamics, specialists in custom built pump, fan and compressor products for aerospace, defence and naval applications. It continued to win new business in 2003, including a brushless motor controls system for the Boeing C-17 aircraft and a contract for the design, manufacture and qualification of a fan system for avionics cooling on the V-22 Osprey aircraft.

Despite the reduction in divisional sales, our controls business continued to win new programmes on the F-22, the E2C, Boeing 767 Tanker and Boeing 777; and on industrial gas turbines with equipment for the Rolls-Royce RB211 and Trent engines, and a high recovery valve for the GE Frame 6 engine. These successes should lead to additional sales of circa US\$100 million over the next decade.

Our fire detection business increased turnover and completed significant engineering development tasks. This included a system for the new Airbus A380, comprising new software that provides more information on all conditions to the pilot and maintenance crew. Qualifications begin in 2004 with the first flight scheduled for early 2005. Integration of our silicon dioxide cable with Kaman's complementary product line in 2002 has resulted in major programmes for the F-22, THAAD Missile and Raytheon's ALE50 decoy. We received a supplementary type certificate for the cables that will replace the organic wire being used to power the Boeing 737NG's existing fire detection system.

In a further extension of the markets this business serves, we qualified an electromechanical actuator for the Boeing 777 that secures the doors during flight. Nine units per aircraft are required for the large existing fleet that could be retrofitted with this technology. Production deliveries began in January 2004. Our bleed air leak detector (BALD) was developed to upgrade the Air Force C-5's aging system. This alerts crew members to hot air leaking within the aircraft wing and pinpoints the location for maintenance crews. Deliveries started in 2004.

Our polymers and composites business continued to evolve into an engineering led solution provider, winning new contracts for the Airbus A380 aircraft and many applications in the US military market.

The division's printed circuit heat exchange business experienced a successful year in its traditional offshore hydro-carbon production market and continued to develop new, long term products. In addition, we tested key components of a steam-methane reformer capable of producing hydrogen fuel for fuel cells. We designed, built and tested a

highly compact fuel vaporiser for automobile fuel cells with a major automobile manufacturer and a revolutionary printed circuit reactor was used in a pilot scale plant constructed with a major European petrochemicals manufacturer.

Defence Systems

Significant orders for existing products, new product developments and two major acquisitions saw turnover increase by 34% (47% at constant exchange rates) in 2003.

Caswell International is the market leader for ground targetry used in live fire training by defence and law enforcement organisations. Its markets are growing with the increased terrorist threat post 9/11. Synergies are already being derived from the integration of Meggitt's scoring systems with Caswell's ground targets, while the acquisition positions us as a single source of land, air and sea based targetry.

Western Design Howden Inc, acquired in December, is a leader in the design, development and manufacture of ammunition handling and environmental control equipment for fighting vehicles and serves customers of our air based combat systems. Integration will enable the division to deliver a wider range of systems products to these customers. Western Design was recently awarded further funds to develop the ammunition handling system for the Mounted Combat Vehicle, a component of the US armed forces' "Future Combat System". Over 900 vehicles could be fitted, leading to substantial future production sales.

Product development programmes progressed well. Our fibre optic towed decoy was fully qualified and successfully completed all flight tests on the Block 60 F-16. Fully accepted by the customer,

it will become the world's first operational fibre optic towed decoy system to enter volume production. We were selected to play a major role on the ITT/Raytheon MoDAS team. The Modular Defensive Aids System is intended to protect the RAF Tornado aircraft from radar guided missile attack. The system, which comprises pod structure, fibre optic towed decoy launch recovery systems, towlines and decoy airframes, was successfully demonstrated to the UK Ministry of Defence in January 2004.

Target systems featured strongly in 2003 as orders from Denmark, France, Taiwan, Germany and Egypt confirmed the Banshee target system's leading market position and the Voodoo fast target successfully completed its final flight trials at speeds of over 300 knots.

The Aerial Gunnery Target System (AGATS 36) was commissioned by the Royal Thai Air Force and we received orders for the RM30-A reeling machine to provide training on the German A4 aircraft. The United States Department of Defense awarded contracts to the division for the development and initial production of the Apache Aerial Weapon Scoring Systems.

Electronics

The Electronics business delivered significant gains in sales and operating performance in 2003. Turnover from continuing operations rose by 4% to £71.2 million (2002: £68.6 million). At constant exchange rates, turnover rose by 10%. Operating profit from continuing operations rose by 68% to £11.2 million (2002: £6.7 million) and the order book at the end of December was 18% higher at constant exchange rates than 12 months earlier. The division initiated a strategic investment in Asia for the Group.

In 2003, following management restructuring in the previous year, the division launched a continuous improvement initiative to enhance productivity and customer service by expanding process capabilities. Our US facility delivered a 25% improvement in productivity, which, combined with an underlying volume increase, significantly enhanced profitability.

We reinforced our strategic focus on high performance sensing solutions for aerospace, medical and transportation applications by disposing of the non core Meggitt Petroleum Systems' businesses in May 2003 for £3.2 million, completing the disposal of Meggitt Electronics Systems. This was followed by the division's initiation of a US\$12.0 million investment in a new manufacturing facility in Xiamen, China, providing the Meggitt Group with access to low cost, highly skilled labour and a sourcing and support location for customers in Asia.

Commitment to new product development remains strong, with more than 6% of revenues allocated to engineering. We won the designs for the Joint Strike Fighter's flight test programme and the sensing systems that monitor the health of the aircraft's lift fan and drive system. Progress in medical sensors solutions was evidenced by the development of a new titanium diaphragm sensor for *in vitro* medical condition monitoring.

There was strong demand for network sensing solutions that combine integrated processing and communications capability—customers included the United States government, Boeing and the Japanese space agency, JAXA. Significant increases were recorded for platform safety testing and transportation applications.

The division consolidated its position in automotive position sensors in Europe,

winning climate control and position sensor designs from Hella, Preh and Bosch for Mercedes Benz, Audi, VW and GM. We secured design wins from Lear, Eaton and Preh in the United States and achieved major sales in Asia with position sensor designs for Honda, Hyundai and Daewoo.

Outlook

Although civil aerospace original equipment markets are expected to remain weak in 2004, the civil aftermarket for spares and repairs has seen signs of recovery over the last few months. Demand for military equipment has been, and is expected to remain, robust and the recent acquisitions are performing well in this market. The Electronics businesses have benefited greatly from restructuring and have enjoyed strong demand for their products.

The Group continues to generate cash in line with profits and to invest in the future with engineering development and new facilities. The US\$12.0 million investment in China is particularly significant.

The main area of uncertainty is the value of the US dollar. Around 75% of the Group's profits are made in the USA and the recent weakness in the dollar will reduce the translation of those profits into sterling. However, with the underlying order book at the end of January 2004 up 7% over January 2003, the Group is on track to deliver a strong underlying performance in 2004. In consequence, the Directors are recommending a final dividend increase of 7%.



Terry Twigger
Chief Executive

Financial Review



2003's record profit again demonstrates the underlying quality of Meggitt's businesses.

With the civil aerospace market still difficult, military sales and acquisitions were the key growth drivers. Cash generation remains excellent and we funded £57.3 million of acquisitions (net of disposals) and made additional contributions of nearly £5.0 million to various pension schemes with only a modest debt increase. Our balance sheet is strong and gearing, the ratio of debt to shareholders' funds, reduced from 54% to 53%. We continued to invest in organic growth and are well positioned to make further acquisitions. Recent acquisitions are performing strongly.

The main impact of the weak US dollar is that the very impressive results from some of our overseas businesses are reduced when translated into sterling. For example, at constant exchange rates, turnover from continuing operations increased by 12%, reducing to 6% at actual exchange rates.

Operating results – overview

Turnover from continuing operations increased by 6% to £398.8 million (2002: £377.5 million). The £23.4 million of sales generated by 2003's acquisitions was more than offset by the £24.0 million negative impact of foreign currency translation.

Sales to the military market continued to grow and now account for 44% of turnover from continuing operations (2002: 37%). Sales to the civil aerospace market accounted for 34% (2002: 39%) of turnover from continuing operations. Sales to other markets accounted for 22% (2002: 24%).

Operating costs included an additional £2.0 million contribution to the UK pension funds to reduce the schemes' deficits. Even after this charge, operating margins improved from 19% to 21%. Net interest costs were broadly unchanged at £8.2 million. A modest currency-related benefit was offset by a small increase in the average debt and the average interest rate.

This leaves profit before taxation, exceptional items and goodwill amortisation up 7% to £75.5 million (2002: £70.3 million) including a £3.0 million contribution from the year's acquisitions. At constant

exchange rates, and before the additional pension contributions, the underlying increase was 19%.

Meggitt continued to divest non-core businesses and in May 2003 Meggitt Petroleum Systems (MPS) was sold. This resulted in an exceptional loss of £13.3 million after charging £13.7 million of goodwill previously written off against reserves. On a statutory basis, profit before tax is also up 7% to £42.0 million (2002: £39.2 million). The sustainable effective tax rate for the Group reduced by 2% points to 28% (2002: 30%) and earnings per share on an IIMR basis increased by 7% to 18.3 pence in 2003 (2002: 17.1 pence).

Cash flows, cash and debt

The Group maintained its strong track record of cash generation, converting 98% of operating profit before goodwill amortisation into cash flow from operating activities.

Net cash inflow before acquisitions and disposals was £40.8 million (2002: £31.3 million). We spent £57.3 million on acquisitions (net of disposals), buying the TCC valve business for £17.2 million, Caswell for £16.9 million, Western Design and Airdynamics for £26.4 million and receiving net proceeds of £3.2 million for MPS. Group net indebtedness increased from £139.7 million to £140.5 million with interest cover increasing to a very comfortable 10.2 times (2002: 9.7 times). Gearing by end December decreased to 53% (December 2002: 54%).

Borrowing facilities and liquidity

Meggitt's operations are financed by shareholders' funds (equity share capital and retained profits) and bank borrowings. We have committed borrowing facilities of £307.2 million, comprising two bilateral agreements, one syndicated credit facility and a \$250.0 million US private placement completed in June 2003. The private placement, which consists of a 10 and 12 year tranche of \$180.0 million and \$70.0 million respectively, has significantly extended the maturity profile of our core funding. All committed facilities conform to a standard covenant structure. Drawings under the revolving facilities are at variable

rates of interest, linked to LIBOR for the relevant period and currency.

At the end of 2003, we had undrawn committed bank facilities of £154.2 million and maintained uncommitted facilities with UK and overseas banks for daily working capital requirements.

Treasury management and procedure

Meggitt's treasury policies seek to reduce financial risk and ensure sufficient liquidity for foreseeable needs. Principal financial risks, which relate to currency and interest rate movements, are managed by a centralised treasury department according to Board-approved objectives, policies and authorities. Regular reports monitor exposures and assist in managing the associated risks. Financial instruments are used for hedging purposes only to provide greater certainty on future revenues and costs. Speculative transactions are not permitted.

Meggitt's interest rate policy involves fixing portions of debt based on overall gearing and assessed rate trends. At the end of 2003, around 80% of the Group's gross debt was fixed at rates between 5.4% and 7%.

Currency risk is managed by hedging known transaction currency exposures through foreign currency contracts. Anticipated exposures are based on historical data and projections and hedged according to materiality and the Group's view of future exchange rates.

Currency translation exposure of our overseas net assets is reduced by matching the currency of borrowings to the currency of assets.

Taxation

New tax credits and the tax-efficient structuring of acquisitions has enabled us to reduce 2003's underlying tax rate to 28% (2002: 30%), resulting in a tax charge of £21.1 million (2002: £21.1 million).

Tax paid in 2003 of £12.7 million (2002: £16.4 million) is lower than the profit and loss account charge, largely due to refunds received for prior years and timing differences.

Pensions

Meggitt has two active, defined benefit schemes in the UK and two closed defined benefit schemes in the US (arising from the acquisition of Whittaker Corporation in 1999). The last UK actuarial valuations in 2001 showed a surplus in both UK schemes, with the US schemes in deficit but fully provided for in the balance sheet. In advance of 2004's triennial valuation, we increased contributions to the UK funds for accrued service and made a £2.0 million payment to reduce the expected deficit arising from the decline in equity values since 2001. We also contributed \$5.0 million, provided for on acquisition and not affecting profit, to reduce the deficit in the Whittaker US schemes. At the end of 2003, because of improved equity markets and additional cash contributions, the estimated SSAP24 deficit for all schemes reduced to circa £22.0 million after tax. On an FRS 17 basis at 31 December 2003, those schemes showed a deficit after tax of circa £48.4 million. If FRS 17 had been adopted, the profit and loss charge in 2003 would decrease by £0.6 million over the 2003 actual SSAP 24 charge in the accounts.

Financial reporting standards

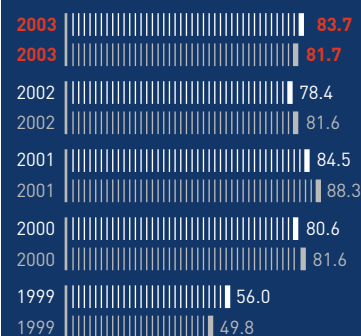
During 2003, an amendment to FRS5 (Reporting the Substance of Transactions) and a number of Urgent Issue Task Force bulletins were issued. Neither affected the Group's results.

Meggitt continues to follow FRS17 (Retirement Benefits) for phased implementation and has made the required disclosure in Note 33 to the Financial Statements. Following recent Accounting Standards Board announcements, this standard may not be fully implemented. The Group has set up a working party to monitor and plan for the proposed move towards International Financial Reporting Standards from 2005.

Stephen Young

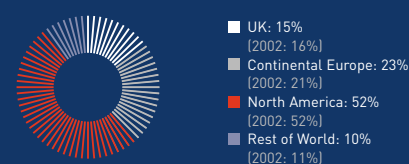
Stephen Young
Group Finance Director

Cash generation (£m)



Operating profit before goodwill amortisation | Cash flow from operations

Turnover by geographical destination (%)



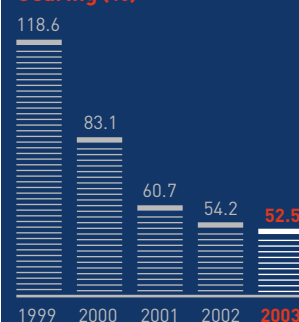
Exchange rates effective for 2003

	Balance Sheet		Profit & Loss Account	
	Year end rate		Weighted average	
	2003	2002	2003	2002
US dollar	1.79	1.61	1.63	1.46
Euro	1.42	1.53	1.45	1.57
Swiss franc	2.21	2.23	2.21	2.34

Currency profile of net debt (£m)

	2003	2002
Sterling	(22.8)	(29.4)
US dollar	141.2	144.8
Euro	(3.2)	(6.3)
Swiss franc	25.7	31.3
Other	(0.4)	(0.7)
Total net debt	140.5	139.7

Gearing (%)



Engine fire detector

When you are running an airline, the last thing you want is *cry wolf* technology. After all, turning a cargo aircraft back on a false fire alarm can cost around \$1 million when you consider emergency landings, extra airport fees, late delivery penalties and dumped fuel.

Because our fire detectors are uniquely constructed to reduce false fire events—even if bent, crimped or dented—you won't be surprised to learn that 85% of new aircraft choose this technology.

- > Vibration resistance: 45g
- > Temperature tolerance: continuously up to 343°C
- > Direct flame exposure: 1082°C for five minutes
- > Success rate: no true fire alarms missed over one billion flying hours

Meggitt combining safety and commercial imperatives.

Market balance.

The key to Meggitt's record profits in 2003 can be found in a strategy that includes balancing business across a spread of specialised sectors in aerospace, defence and electronics. We aim to maintain equilibrium across the business cycle between military and civil interests, the manufacture of original equipment with spares and repairs, and take the opportunity where appropriate to transfer core technologies to other sectors. This obviates dependence on single customers, single products and single markets.

Meggitt's decisive shift in market emphasis towards military aerospace post 9/11 has made this the largest segment of our business in 2003, at 44% of sales. The military market in general is growing in line with national governments' response to the continuing terrorist threat—no more so than in the United States, our main geographic market. Its defence budget proposal of \$405.0 billion for 2005 represents a 7% increase over 2004's funding levels, a trend that is forecast to continue. Meggitt's market share increased through new applications for existing products for aircraft and ships, targetry used to develop and validate gunnery and operating personnel and anti-missile decoys for pilots on combat missions. Four major defence oriented acquisitions in 2002 and 2003 extended our capabilities in rugged military avionics, land, sea and airborne weapon systems technology and military environmental control systems. These developments, set against the favourable backdrop of a rising sector, should generate further growth in 2004.

In 2001, civil aerospace accounted for 49% of Group sales and, while this reduced to 34% in 2003, it remains an important Meggitt market. Since virtually every Western aircraft flying today employs Meggitt products and systems, we have a strong aftermarket presence. We continue to secure our place on tomorrow's aircraft, providing original equipment manufacturers and system integrators with the engineering solutions and after sales service that keep their customers' aircraft flying. Current indicators show that passenger traffic levels have stabilised and are slowly moving upwards. Available seat miles¹, for example, are still down on pre 9/11 levels but have shown a positive trend during the latter half of 2003. The International Civil Aviation Organisation has forecast growth of 4.4% and 6.3% in world airline traffic in 2004 and 2005 respectively. All this indicates an improvement in uptake of our aftermarket—mandated repair and overhaul—services in 2004.

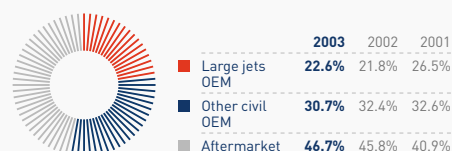
Non-aerospace applications still account for more than 20% of Group sales. Meggitt's electronics businesses in particular have experienced strong growth in the automotive and consumer electronics sectors. Our electronics sensors are used extensively in the expanding medical market and automotive growth applications including climate control, position sensing, anti theft and crash testing. The Group continues to innovate in aerospace but is equally at ease transferring technology to new markets. In the industrial gas turbine sector, for example, despite a temporary reduction in market size, we continue to win business with innovative sensor, monitoring and fluid control technologies.

Analysis of turnover (continuing businesses)

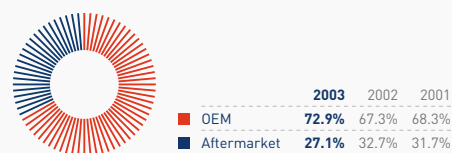
Primary markets



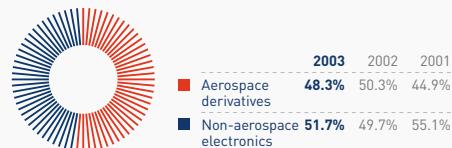
Civil aerospace



Military



Other markets



¹ Source: IATA





Dynamic pressure sensor

Providing mission critical measurement for developing, testing and monitoring propulsion systems, this extreme environment sensor continues to function after feeling the first flame of Ariane 5's cryogenic engine gas generator at 1250°C—from a standing start of a very cool -196°C after the engine has been purged with liquid nitrogen and helium. If the sensor does not react to the shock of ignited hydrogen and oxygen, the launch is abandoned.

- > Temperature range: -196°C to 1250°C
- > Shock acceleration: <2000g peak
- > Resolution: <0.0005 bar
- > Atmospheric tolerance: corrosion and humidity resistant

Measurement is the foundation of scientific experimentation.

Global partnerships.

Many of Meggitt's key customers—GE, Boeing and Rolls-Royce among them—have global strategies to reduce product cost through local sourcing. And many want a specific support infrastructure in Asia from their suppliers, identifying China as an important centre for raw materials, finished goods, services, manufacturing operations, engineering, and product development.

That's why, in 2003, Meggitt finalised an initial \$12.0 million investment plan that takes the group into the region, enabling us to meet our customers' global sourcing expectations and remain a top tier supplier.

The initiative will also provide us with a low cost export arm, a technology development centre to support Meggitt businesses group-wide, and significant opportunities for on-the-ground organic growth.

With the rapid growth of China's economy, Meggitt is confident that it can win business from sectors in which we have long experience—aerospace, automotive, medical and, of course, maintenance, repair and overhaul support for industrial gas turbines and aircraft.

Meggitt's Chinese facility is located in Xiamen's Special Economic Zone. A medium-sized coastal city in South China, Xiamen is a regional electronics centre with an aviation oriented inward investment drive. European and United States multi-nationals including GE Aircraft Engines are present there; and others have made well publicised commitments to invest.

We aim to build the facility, recruit and train staff in 2004 and start production in 2005.

Some of Meggitt's market leading customers

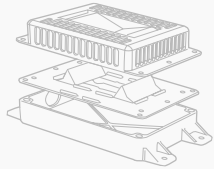
Agusta Westland	Hamilton Sundstrand
AIDC - Taiwan	Honeywell
Airbus	Ilyushin
Alenia	Lockheed Martin
Antonov	Medtronic
Arianespace	Northrop Grumman
BAE Systems	Pilatus
Bell Helicopter	Pratt & Whitney
Boeing	Raytheon
Bombardier	Rockwell Collins
Cessna	Rolls-Royce plc
CIAM	Saab
Commander Aircraft	Saga
DaimlerChrysler	Siemens
DASA	Sikorsky
Dassault Aviation	Statol
Dornier	Tupolev
ELA	The New Piper
EADS	Aircraft, Inc
Embraer	UK Ministry of Defence
Eurocopter	US Department
General Electric	of Defense
General Motors	and many other
GKN Westland	national defence
Guidant Corporation	organisations
Gulfstream	

Smart engineering for extreme environments.

Meggitt's roots are in precision engineering. Investing over £100 million in development activity over the last five years, we continue to make our hardware lighter, smaller, longer lasting and more efficient to meet the challenges of environment, performance and commerce associated with advancing 21st century technology.

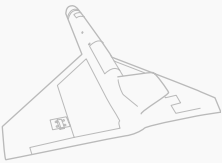
Yet, whether Meggitt products are controlling, connecting, communicating, measuring, monitoring, protecting or training; whether we are responding to the needs of the larger systems providers with critical components; or integrating our own highly specialised sub-assemblies, Meggitt products are increasingly developed with intelligent systems capability.

Protecting Micro-processor based hazard detection



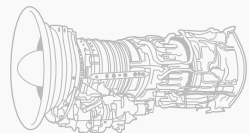
Our latest cargo bay smoke and fire detection system can diagnose the criticality of in-flight events with unprecedented reliability and accuracy. Ambient smoke, temperature and carbon monoxide levels are continuously monitored in the networked detection environment and reported to a microprocessor in real time for active analysis.

Training Threat simulation and real-time scoring



Doppler radar, processed with our algorithms, can characterise a projectile at sub and supersonic speeds. Integral to Meggitt's sophisticated gunnery training and weapons development systems, the technology is used to confirm hits, indicate miss distance and attitude, and model a missile's trajectory for real time analysis. Proven with Meggitt's surface and airborne targets, it is enhancing the functionality of our recently acquired ground-based targetry; is integral to our advanced marine target system; and, combined with our remote controlled four wheel drive vehicles, is creating a new generation of highly mobile armoured vehicle targetry.

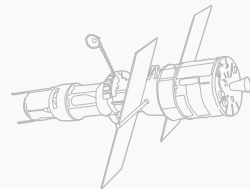
Controlling Creating a digital interface



In an era of electricity deregulation, power producers are substituting large-scale oil or coal powered plant with smaller, cleaner, cheaper, natural gas powered

turbines—often used as localised generators that continue to function during brown outs. Generator design is also being improved with Meggitt's electrically actuated engine controls, which are more reliable than conventional high maintenance, highly degradable hydraulic models. What's more, we are reducing the re-engineering costs associated with upgrading existing equipment with an end-to-end solution—inserting a reliable, digitally controlled electric system at the hydraulic interface, compatible with our customers' primary control software.

Measuring Complete systems on a single chip



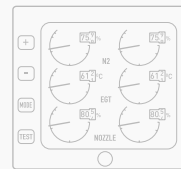
By integrating mechanical elements, sensor actuators and electronics on a common silicon substrate using micro fabrication technology, we can provide the complete system on a single chip required to develop an almost limitless range of smart products. We were among the first to develop smart sensors with on-board mechanics and to manufacture modules that give analogue sensors intelligence. We recently coupled this technology with high speed networking for satellite guidance and aircraft testing applications.

Monitoring Engine diagnostics expressed through pure electronics



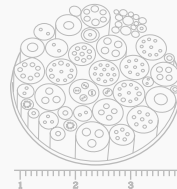
We responded to the technical challenge posed by Embraer's 170/190 jet whose competitive edge turns on reduced weight and reliability. Our new engine vibration monitoring unit is based on effective charge amplifier design, and deft, first-stage handling of the pico-coulomb engine sensor signals, which, readily susceptible to interference, can distort information. This development expresses the value of a half century's vibration monitoring experience in the pure electronics solution required for the aircraft's advanced integrated avionics.

Communicating Intelligent displays



Upgrading fast, military aircraft with intelligent flight deck instrumentation reduces pilot workload, enhances aircraft performance and extends service life. Meggitt's three-inch digital displays, which replace and integrate the function of multiple electro mechanical gauges, can be simplified further to show critical information only. Operating intelligently, they monitor parameters invisible to the pilot in normal operation. Abnormal data—such as an unusually high temperature—is displayed immediately. During landing, flap position and airbrake deployment are shown on pop ups. Engineers can use the displays' monitoring data for the preceding eight flights to improve performance, reliability and operating cost.

Connecting A revolution in information and power transmission



Conventional organic cabling cannot withstand the intense heat generated by advancing aerospace technologies. Our unique silicon dioxide cabling fulfils a range of safety and mission critical applications where performance and reliability are challenged by such operational extremes. An evolution of our power and signal transmission technology used in military aircraft and nuclear installations, our SiO₂ cabling combines the flexibility, light weight and structural integrity needed to withstand current and future temperature and vibration extremes. Today, we are using this product with our fire detection technology in an advanced fire detection system that is enhancing the reliability of current commercial aircraft and reducing operating costs.

Doppler radar scoring

Our electronic scoring systems—including the unique application of Doppler radar combined with digital signal processing, telemetry and data display systems—provide the critical link between training and combat: gunnery and missile performance assessment.

- > On the ground: we score subsonic, supersonic, and hypervelocity projectiles of 5.56mm to 200mm in diameter, flying from 500 to 5500 ft per second.
- > In the air: 360° coverage of scoring range, miss distance, vector and scalar accuracy from—depending on the mission—a few inches to a few feet.

Because today's warriors must train as they fight.





Operational excellence.



Compact flight displays

Too much information as well as too little can be dangerous as any pilot will tell you. That's why Meggitt cockpit displays not only withstand the physical constraints of the most agile fighter jets, they counter the sensory overload that pilots can experience during a critical mission.

- > Readiness: -40°C in winter to 90°C in a desert summer
- > Vibration tolerance: aerodynamic, gunfire and g forces
—to the limit of human endurance
- > Agility: rolling up to 400° per second, at altitudes of >60,000 feet
- > Before Meggitt: four or more mechanical gauges
- > After Meggitt: one 3" digital display

Meggitt simplifying complexity.

Meggitt's Operational Excellence programme aligns shareholder with customer value. Using all the modern management tools—*Lean*, *Six Sigma*, the *5Ss* and *Kaizen*—the programme starts from the customer's perspective: we use the tools to solve their biggest problems.

Today's customers focus on speed and performance. They demand services in the form of shorter product development cycles, improved maintenance and repair turnaround times and engineering

expertise that will increase the performance of their products.

A recent programme success was recorded at Whittaker Controls. The task was to improve the introduction of new products from a market acceptable range of 12 to 14 months. By re-engineering the process through the application of *Lean* and *Six Sigma*, Whittaker successfully reduced it to a market-leading four to five months—a 300% increase in new product introduction.

Operational Excellence programmes are not new to us. However, as the Group increases in size, you will find business improvement experts working within and across divisions, cross-fertilising and standardising values. *Continuous improvement* is a given within Meggitt.

By wrapping improved services around our products, which continually exceed our customers' expectations, our programme is winning new business and enhancing shareholder value.

Thermal management system

The world's most advanced tank—the M1A2 SEP Abrams—is armed with more than weaponry and highly trained personnel. It comes with sophisticated electronics that provide the knowledge needed for the increasingly network-centric battlefield.

To function in extreme conditions—like desert environments in which temperatures can soar as high as 60°C, hatches battened and the crew in full protective gear—our thermal management systems protect sensitive electronics from heat overload and crew members from heat exhaustion.

Meggitt protecting personnel and advanced combat systems.



Transforming acquisitions.

Buying companies is one thing. Adding value to those businesses—and those we combine them with—quite another. As recent acquisitions demonstrate, we do both.

Lodge sensors enhanced our vibration measurement capability and widened Meggitt's engine condition monitoring offer. We combined our world class fire detection technology with *Kaman*'s high speed, high temperature cable, now certified to replace the organic wiring in the Boeing 737NG's fire detection system; and integrated *BAE Systems*' rugged military air data and data acquisition products with our sophisticated commercial avionics, entering a new market with a major fighter aircraft technology upgrade contract.

In 2003, we expanded our defence markets with three major acquisitions.

We added *Caswell International*'s ground-based targetry to our aerial targetry and countermeasure systems capability. At the same time, we enhanced the functionality of *Caswell*'s products with our unique radar scoring technology.

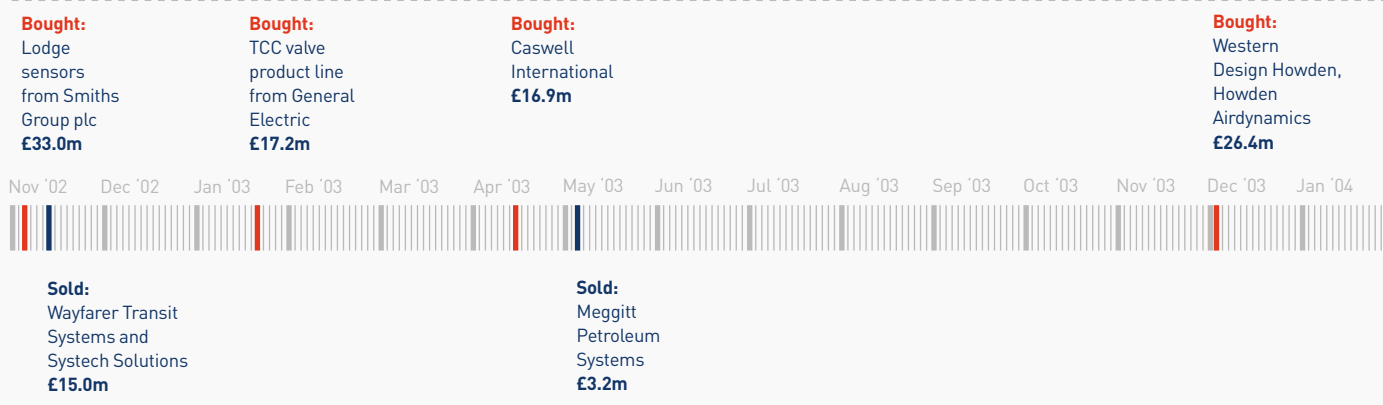
Western Design Howden develops and manufactures environmental control systems; and sophisticated automated ammunition handling technology for land, sea and air combat, using the high speed rotational engineering principles common to Meggitt's aerial decoy deployment systems.

Sister company, *Howden Airdynamics* designs and manufactures military grade pumps, high pressure air compressors and fans and blowers—again, using technology we understand. This equipment is customised for a wide range of land,

sea and airborne vehicle applications, which include gearbox lubrication; fuel systems; electronics, avionics, laser and radar systems; and the provision of breathable air for fire fighting and damage control teams on naval ships.

Renamed *Meggitt Western Design* and *Meggitt Airdynamics* respectively, these acquisitions widen access to the United States Department of Defense and some of its largest defence contractors.

Meggitt gains an entry point for the transfer of aerospace technology to substantial ground-based fighting vehicle programmes. In turn, we will provide these companies with the opportunity to develop aerospace applications for their environmental control systems, extended by the group's complementary sensor, control valve and electronics technologies.



Turbine clearance control valve

This technology optimises the rotor expansion that normally occurs at high temperatures during parts of an aircraft turbine's operating cycle. The valve controls the air flow on to the turbine case, varying the temperature so that the case can contract and expand in the cruise condition. Precise control of the turbine and case clearances minimises aerodynamic losses, reduces fuel burn and improves efficiency.

- > Operating temperature: -55°C to 620°C
- > Shroud control: within .005 inch of the engine fan blades operating up to speeds of 14,000 RPM
- > Weight: 40% lighter than the previous standard

Reducing emissions; increasing performance.

Group stability. Company agility.

Meggitt's group values are based on strict financial and other internal control systems; a systematic approach to risk management; cross-fertilisation and standardisation of operational processes; and investment in people, plant and product development.

We also take care to ensure that we can continue to respond to customer needs with the speed and flair associated with the individual enterprises that comprise our group.

But there is more to problem solving at Meggitt than immediate and imaginative reaction. We apply the broadest intelligence to customers' "big picture" issues. We don't wait for them to come to us for a specific technology they think they need, to an application they have already developed. In so doing, customers benefit from more

intelligent solutions and we bring more value to our commercial relationships.

We are always responding to commercial aircraft producers' broad requirement for lighter and more reliable aircraft, cutting the cost of ownership with technology that reduces fuel consumption and downtime for maintenance, repairs and overhaul.

Our latest initiative combines engineering skill in sensor manufacturing and electronics expertise. Meggitt is working with the world's pre-eminent aircraft manufacturers to develop the network sensors standard that will enable sensors to be connected and to communicate with each other in any environment. Among other benefits, such networked sensor solutions could lower aircraft weight, reducing the 400 miles of cabling typically deployed on a jet liner to around four.





Corporate Social Responsibility

Translating international thinking on responsible corporate citizenship into relevant action

Meggitt businesses have always operated to high standards in quality, health and safety and the environment, interacting positively with our local communities and acting as responsible neighbours. Towards the end of 2002, however, Meggitt undertook a formal, Group-wide social responsibility survey (CSR) survey, measuring the results against defined corporate social responsibility principles.

Based on these principles, we continued to monitor our performance in 2003, translating international thinking on responsible corporate citizenship into action relevant to the needs of our operating businesses and their stakeholders.

Our CSR principles

- sound corporate governance standards
- compliance with all relevant legislation and regulations
- continual improvement of our financial, social and environmental performance embracing:
 - a supportive, rewarding and safe working environment for employees
 - minimisation of the environmental impact of products and processes
 - ethical business conduct
 - local community support

Principles into practice

Our reputation for financial probity in an era when distrust of corporate entities is high continues unblemished. This remains key to our approach to financial management: our profits are 'real', evidenced by the high rates of cash generated by the Group.

Health, safety and environmental issues are critical for any business involving manufacturing, areas on which Meggitt rightly focuses as a cornerstone of CSR thinking. Progress on the certification of our environmental management systems, for example, continues apace with many businesses either achieving—or on their way to achieving—the exacting ISO 14001 award.

Involved, as we are, in manufacturing mission critical products, a robust quality ethos is fundamental to maintaining market leadership in our chosen fields. This has been affirmed by numerous certifications to ISO 9001:2000, the international quality management standard.

Training and the pursuit of modern, operational practice is also vital to the Group's continuing success, enhancing the value of employees for us and, just as important, themselves.

With our increasing role as a defence contractor, we continue to adhere to the highest standards of export control as part of our approach to business ethics.

And we remain, of course, an international business with a diverse workforce arising from our equal opportunities employment policies.

All this enables Meggitt to meet the requirements of our stakeholders and make an important economic contribution to the communities in which we operate.

CSR management

Terry Twigger, Chief Executive, takes overall responsibility for CSR issues, assisted by Philip Green, Group Corporate Affairs Director. Day-to-day responsibility rests with our business unit managing directors.

Governance

Corporate governance, described in detail under the Directors' Statement on Corporate Governance (page 30) has always been pursued vigorously by Meggitt. During 2003, the Board considered the recommendations of the Higgs Review and Smith Report and is planning to implement the new provisions of the Revised Code on Corporate Governance.

Risk

Risk management is fundamental to a successful business. We have systems in place across the Group to identify and manage financial, operational, environmental and compliance risk. Our Operations Executive and Board of Directors conduct regular risk reviews.

The Combined Code requires the Board to be responsible for—and to maintain—a sound system of internal controls. Meggitt's process for identifying, evaluating and managing Group risk is a robust one. It is described in detail under Internal Control (page 31).

In 2003, we placed special emphasis on business continuity management planning to ensure that, should a disaster occur, the affected business would be operational as soon as possible. With independent

consultants, Marsh Risk Consulting, we launched a major exercise in which our sites will review their existing business continuity plans. The process includes identifying operational risk, assessing impact, defining emergency responses and devising specific business recovery plans. We aim for Group-wide standardisation of business continuity policy and processes by early 2005, using industry benchmarks and recognised best practice.

Health and safety

We take the health, safety and welfare of our employees—and those who visit our sites—very seriously. We promote safe working conditions through safety training and provide protective equipment where necessary.

In 2003, we implemented a rolling programme of health and safety audits throughout the Group with Marsh Risk Consulting. These reports identify deficiencies in process and operations and make specific recommendations. Site managers must comment on these recommendations and timetable appropriate action. Six sites were audited in 2003 and a further six are planned for 2004.

The environment

We are committed to minimising the environmental impact of our operations through good environmental management practices.

All Meggitt businesses record energy use and waste quantities, benchmarking

them against key performance indicators to help identify further minimisation opportunities. We continue to focus on pollution prevention measures throughout our businesses, based on better operational control and designing efficiency into new products. Endevco, for example, a California-based sensors business within our Electronics division, reduced its waste water storage to zero with a new evaporator and on-site treatment system in 2002. In 2003, it went on to target chemical use, substituting cleaning solvents with environmentally acceptable alternatives. By the last quarter of 2003, these initiatives had reduced the company's hazardous waste generator liability from thousands of dollars to zero.

In 2003, a number of our businesses achieved the internationally accepted environmental management accreditation, ISO 14001 for their environmental management systems (EMS). This followed the implementation of a specialist programme through independent advisors, Environ. To help all our businesses devise the environmental management systems that will qualify for the international standard, this programme includes the provision of EMS toolkits and ready access to a comprehensive environmental legislation database. Accreditation of all Meggitt businesses should be achieved in 2004/5.

Meggitt has systems in place to react to nuisance complaints. None were reported during 2003.

Business continuity planning



Meggitt's Environmental Management System

Steps towards ISO 14001 certification



Corporate Social Responsibility continued

Our relationships with aerospace and defence customers commonly span decades

Customers and suppliers

The nature of our markets, which often involves the supply of safety or mission critical products, is such that compliance with the highest standards of performance, delivery and quality is critical if we are to bid for and then win business. Our relationships with aerospace and defence customers commonly span decades—some have endured for half a century. In 2003, Vibro-Meter, an engine diagnostics business within Meggitt's Aerospace Systems division, attracted two awards: Best Supplier of the Year (electronics category) from Embraer and the other from Airbus for Outstanding Customer Support.

Ethical business

We are committed to conducting business relationships in an ethical way and to honouring contracts with suppliers, contractors and customers. We do not permit gifts or donations to political parties, trade unions or other organisations and we actively discourage gifts to Meggitt staff that result in a conflict of interest. Our long standing business ethics policy is actively communicated to staff and outlined in our corporate manual, which is available to all employees.

As a growing defence contractor, we place special emphasis on complying with export control regulations to ensure that Meggitt equipment is not supplied to hostile regimes.

Working at Meggitt

Meggitt's success stands or falls on attracting and retaining skilled and

motivated people. All our businesses actively embrace non-discrimination and equal employment opportunities and we take care to provide all staff with appropriate training and encourage skills development. Apprenticeships are common at Meggitt while we sponsor further education through MBAs and other Masters degrees.

Many of our staff have been with us for at least five years and some for decades.

Local communities

Providing highly skilled, local employment is key to Meggitt's local community presence: the percentage of employees living within a 4km radius is as high as 95% for many businesses. Group-wide, our economic contribution through salaries, tax and social security contributions is significant—almost £150.0 million in 2003 (37.5% of sales).

Meggitt's economic contribution in 2003

	£'000
Wages and salaries	110,048
Tax on profit on ordinary activities	21,100
Social security costs	16,504
Total	147,652

We also add value to local communities through a range of education partnerships involving community and technical colleges and state universities. Sometimes used to train staff, such initiatives also provide students with work experience, internships, mentoring and careers guidance.

Above: In March 2003, the UK Ministry of Defence honoured Meggitt Avionics with a top civil award—the Chief of Defence Logistics Commendation—for supplying oxygen equipment and systems ahead of schedule for Chinook helicopters about to enter combat in Afghanistan in 2001. Dick Black, senior designer for the systems, received the commendation from Group Captain Atkinson.

Above: James Whitefield, son of technical author, Owen, enjoyed an open day alongside hundreds of employees and their families at Meggitt Avionics' UK sites in 2003.

Avica UK, one of our Aerospace Equipment division companies, continues to provide aerospace manufacturing and design experience to engineering and management undergraduates from several UK and European universities through industrial placements. The company also takes part in UK Ministry of Defence undergraduate placement programmes.

In 2003, S-TEC, our US-based general aviation avionics facility, received a skills development grant from Texas State Technical College (which specialises in avionics technology tuition and maintains a multi-million dollar aerospace centre) and the Texas Workforce Commission. Affirming the importance of the role that S-TEC plays as a local employer, the grant covered training for 65 employees.

We believe that continuity of support is an important element of the sponsorship we undertake. For more than 20 years, Endevo has provided an annual engineering scholarship for a student to attend a local college and continues with several initiatives involving child development, clinical research, after-school clubs and local community organisations that support the poor and underprivileged. This exemplifies the Group-wide pattern of local, community-oriented donations, sponsorships and education programmes.

Meggitt's headquarters in the United Kingdom has a longstanding relationship with the local comprehensive school,

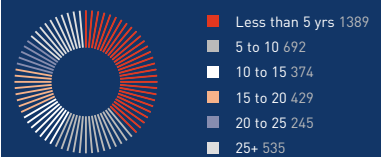
providing a main board director as a governor, and sponsoring the Bournemouth Symphony Orchestra to help the school develop music and performance skills, and raise money for musical instruments and professional tuition. We also provide a yearly award for outstanding student musicianship. In 2003, we awarded additional funding to this school and committed funds to another to enable both to qualify for specialist school status. For the first time, we supported a special school for autistic students.

Meggitt PLC's continuing sponsorship, now in its seventh year, of a local National Health Service hospital trust involves an educational bursary and a number of morale-boosting awards for service and achievement. We also provide donations towards specialist equipment through various appeal mechanisms.

The future

Meggitt will continue to develop and implement practices that benefit our businesses, employees, customers, suppliers and local communities. As an engineering business, this includes continuing emphasis on the Group-wide health and safety audit process, the implementation of environmental management systems that will qualify all our businesses for accreditation to recognised international standards, and a rigorous risk management process to protect our businesses and the interests of our stakeholders.

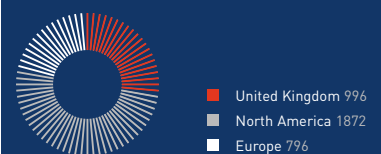
Employees by length of service (years)



Employees by segment



Employees by location



Board of directors

1 Terry Twigger (54)

Chief Executive +

Terry joined Meggitt in 1993 and was appointed to the Board as Group Finance Director in 1995, becoming Chief Executive in January 2001. Before joining Meggitt he spent 15 years with Lucas Aerospace. He is a Chartered Accountant.

2 John Stobie (49)

Director

John, an American citizen, came to Meggitt in 1999 through the acquisition of Whittaker Corporation where he headed up the Safety Systems operation. He is currently President of Meggitt Aerospace Equipment and was appointed to the Board in January 2001.

3 Stephen Young (48)

Group Finance Director

Stephen was appointed to the Board in January 2004. He has held a number of senior financial positions including, most recently, Group Finance Director of Thistle Hotels plc. Stephen also held the position of Group Finance Director of the Automobile Association and Group Financial Controller of Thorn EMI plc. He is a Chartered Management Accountant.

4 Sir Alan Cox CBE (67)

Non Executive Director * + Ø

Sir Alan was appointed to the Board in May 1996. Previously Chief Executive of ASW Holdings PLC, he is a director of The Morgan Crucible Company plc and was a board member of Cardiff Bay Development Corporation from 1987 to 2000.

He was also a member of the Financial Reporting Council from 1995 to 1999. Sir Alan is a Chartered Accountant.

5 Peter Hill (51)

Non Executive Director ‡

Peter was appointed to the Board in January 2004. He is Chief Executive of The Laird Group PLC. He previously held senior management positions with Invensys plc and BTR plc. Peter is also a non executive director of Oxford Instruments plc. He is a Chartered Engineer and holds an MBA.



6 Mike Stacey (65)

Non Executive Chairman * + Ø

Mike joined Meggitt in 1990 following a career with Lucas Industries. He was Chief Executive of Meggitt from 1995 until his retirement in January 2001, becoming Chairman in May 2001. He is also Chairman of McKechnie Group.

7 David Robins (54)

Non Executive Director * + Ø

David was appointed to the Board in January 2002. He has had a long career in the City and was, until December 2000, Chairman and Chief Executive of ING Barings. Prior to joining the ING Group, he spent 18 years with Phillips & Drew and UBS, becoming Executive Vice President and Regional Head of UBS Europe. David is a director of LCH.Clearnet Limited,

Henderson TR Pacific Investment Trust PLC, MPC Investors Limited, two venture capital backed companies and three charities.

8 Philip Green (47)

Group Corporate Affairs Director

Philip joined Meggitt in 1994 and was appointed to the Board in January 2001. He also holds the office of Company Secretary and is a Fellow of the Institute of Chartered Secretaries and Administrators. Philip was previously at British Aerospace.

9 Dr Richard Greaves (57)

Director

Richard, a Swiss citizen, joined Meggitt in 1998 following the acquisition of Vibro-Meter SA, of which he is President. Before joining Vibro-Meter,

Richard was a United Kingdom Atomic Energy Authority scientist. He is Managing Director of Meggitt Aerospace Systems and was appointed to the Board in January 2001.

10 Sir Colin Terry KBE CB (60)

Non Executive Director * + Ø

Sir Colin was appointed to the Board in February 2003. He spent 37 years in the Royal Air Force where he reached the rank of Air Marshal and held the positions of Chief Engineer and Head of Logistics. Following his retirement from the RAF in 1999, Sir Colin served for two years as Group Managing Director of Inflight Engineering Services Limited. He is Chairman of the Engineering Council (UK).

Membership of committees

* Audit + Nominations Ø Remuneration

‡ To be appointed to Audit, Nominations and Remuneration Committees



Report of the Directors

The directors submit their annual report and the audited financial statements for the year ended 31 December 2003.

Principal Activities and Business Review

Meggitt PLC is the parent company of a Group whose principal activities during the period were the design and manufacture of equipment and systems for the aerospace and defence industries and the design and manufacture of electronic sensors, together with related businesses.

More details of the Group's activities and future plans are contained in the Operating Review and Financial Review on pages 5 to 9.

Group Results

Profit before taxation amounted to £41,998,000 (2002: £39,234,000). The profit attributable to ordinary shareholders amounted to £20,898,000 (2002: £18,140,000) which after dividends of £22,113,000 (2002: £20,262,000) resulted in a loss for the financial year of £1,215,000 (2002: £2,122,000).

Dividends

The directors recommend the payment of a final dividend of 5.10p (2002: 4.75p) net per 5p ordinary share to be paid on 2 July 2004 to those members on the register at close of business on 2 April 2004.

An interim dividend of 2.40p (2002: 2.25p) was paid on 5 December 2003. If the final dividend recommended is approved the total ordinary dividend for the year will amount to 7.50p net per share (2002: 7.00p). Dividends are paid to shareholders net of a non-refundable tax credit of 10%. Shareholders liable to higher rate income tax will have additional tax to pay. Shareholders will be offered a scrip dividend alternative under the Share Dividend Plan in respect of the proposed final dividend.

Share Dividend Plan

During 2003 the Company made available the Meggitt PLC Share Dividend Plan in respect of the dividends paid in July 2003 (being the final dividend for 2002) and in December 2003 (being the interim dividend for 2003). The amount of dividend necessary to give an entitlement to one new ordinary share was fixed at 176.3p and 241.3p respectively.

The opening value in respect of each dividend is the market value of one new share on the first day of dealing on the London Stock Exchange. The opening values for the dividends paid in July and December 2003 were 206.5p and 243.0p respectively. In respect of the dividend paid in July 2003 there was a difference of more than 15% between the opening value and the amount of cash dividend necessary to give an entitlement to one new share. In these circumstances the Inland Revenue will seek to substitute the opening value of 206.5p for the above value of 176.3p.

Acquisitions and Disposals

On 27 January 2003 the CFM56-2/-3 Turbine Clearance Control (TCC) valve product line was acquired from General Electric Company for \$27 million (£17.2 million).

On 14 April 2003 Meggitt-USA, Inc acquired Caswell International Corporation for \$26 million paid in cash (£16.9 million).

On 2 May 2003 the business and assets of Meggitt Petroleum Systems were sold for £3.2 million (net) to VBi Limited.

On 10 December 2003 Meggitt Defense Systems, Inc acquired Western Design Howden Inc and on the same date Whittaker Controls Inc acquired Howden Airdynamics Inc. Both companies were sold by Howden Defense Systems Inc, a US subsidiary of Charter plc, for a combined price of \$45 million paid in cash (£26.4 million) and subject to adjustment following a valuation of the net assets.

Share Capital

The authorised share capital of the Company together with details of shares issued during the financial year is shown in note 23 on page 56.

A further 209,051 ordinary shares have been issued between 31 December 2003 and 18 February 2004 as a result of the exercise of share options.

All Employee Share Plan (the "Plan")

The Trustee of the Plan has been allocated £195,000 from the 2003 profits to acquire ordinary shares in Meggitt PLC for eligible employees (2002: £190,000). This Plan has replaced the Profit Sharing Share Scheme.

Directors and their Interests

The directors who served during the year were Mr M A Stacey, Mr T Twigger, Sir Alan Cox, Dr R W Greaves, Mr P E Green, Mr C J Rickard, Mr D A Robins, Sir Donald Spiers, Sir Colin Terry and Mr J J Stobie.

Sir Colin Terry was appointed to the Board as a non executive director on 27 February 2003 and Sir Donald Spiers resigned as a director of the Company on 22 May 2003. Mr C J Rickard resigned as Group Finance Director on 31 December 2003.

Mr S G Young was appointed to the Board as Group Finance Director on 1 January 2004 and in accordance with Article 71 of the Company's Articles of Association retires at the forthcoming Annual General Meeting and being eligible offers himself for election. Mr P J Hill was appointed to the Board as a non executive director on 1 January 2004 and in accordance with Article 71 of the Company's Articles of Association retires at the forthcoming Annual General Meeting and being eligible offers himself for election.

In accordance with Article 75 of the Company's Articles of Association, Mr P E Green and Mr J J Stobie retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for re-election.

Details of directors' contracts and their interests in the ordinary shares of the Company are as shown in the Remuneration Report on pages 35 and 37 respectively. None of the directors has or has had at any time during the financial year a beneficial interest in any material contract relating to the business of the Group other than service contracts.

Substantial Shareholdings

As at 18 February 2004 the Company has been notified as required by the Companies Act 1985 that the following have an interest amounting to 3% or more of the issued ordinary share capital:

	Ordinary Shares of 5p each	Percentage of issued share capital
Prudential plc	29,625,977	10.03
Britannic Asset Management Ltd	19,965,939	6.76
Aviva plc	17,885,595	6.05
Standard Life Assurance Company	14,825,488	5.02
Legal and General Group plc	9,827,441	3.33

Social Responsibility

The Board takes regular account of the significance of social, environmental and ethical matters and a report can be found on page 22. The following specific matters fall under the broad definition of Social Responsibility:

Political Contributions

No contributions were made to political parties or political organisations (2002: £Nil) and no EU political expenditure exceeding £200 was incurred in the year by the Company or any of its subsidiaries.

Community Relations and Charitable Donations

Charitable donations made during the year ended 31 December 2003 amounted to £19,000 (2002: £29,000). In addition, Meggitt PLC gave financial assistance to local organisations amounting to £10,000 (2002: £5,000). There are also many examples throughout the Group of non-financial assistance being provided to local organisations.

Employee Participation

The Company is aware of the importance of two-way communication with employees. Its operating subsidiaries rely on communication and consultation at site level using the best methods as determined by local needs and industry practice. In addition employees receive on a regular basis copies of the Meggitt Review, a newsletter providing details of notable events and achievements in all companies of the Meggitt Group, and annually, a summary of the Group's results for the previous year. Senior Group executives meet together regularly and additionally meet both formally and informally with members of the management teams of other Group companies.

The directors believe that employees should be encouraged to become shareholders in order to provide their active participation in and commitment to the Group's success. This policy has been pursued through the UK All Employee Share Plan, the Profit Sharing Share Scheme, Savings Related Share Option Schemes and the Executive Share Option Schemes.

It is estimated that, when the current year's allocation has been made by the Trustee under the All Employee Share Plan, approximately 810 UK employees will hold shares in the Company. The number of employees contributing to the Savings Related Share Option Scheme at 31 December 2003 was 301.

Payment Policy

The Company policy is to comply with the terms of payment agreed with a supplier. Where terms are not negotiated, the Company endeavours to adhere to the supplier's standard terms. Meggitt PLC is a holding company and does not have significant trade creditors. Its creditor days at 31 December 2003 were 26 (2002: none). Group creditor days at 31 December 2003 were 67 (2002: 57 days).

Health and Safety at Work

The Company continues to carry out its responsibility for securing the health, safety and welfare at work of employees of the Company and its subsidiaries and for protecting other persons against risks to health and safety arising out of, or in connection with, the activities at work of those employees. Every reasonable effort is made to secure safer working conditions, protective equipment is provided when necessary and safety courses are made available. During the year the Company introduced a programme of health and safety audits at the operating facilities by an independent contractor.

Equal Opportunities

The Group has a policy stating that it supports the principle of equal opportunities in employment and opposes all forms of unlawful or unfair discrimination.

Disabled Employees

It is Group policy to give full and fair consideration to applications made by disabled people, to continue wherever possible the employment of staff who become disabled and to provide opportunities for the training, career development and promotion of disabled employees.

Research and Development

The Group recognises the importance of investing in research and development programmes which bring innovative improvements to the Group both in the products supplied to the consumer and in production techniques. Expenditure in 2003 on research and development amounted to £19,988,000 (2002: £22,989,000).

Details of Resolutions to be Proposed at the Annual General Meeting

Details of the Annual General Meeting to be held on 13 May 2004 and explanations of the resolutions to be proposed appear in the separate Notice of Annual General Meeting enclosed with this report. In addition to the ordinary business of the Meeting, shareholders' consent will be sought to (i) approve the Remuneration Report, and (ii) renew the authority of the directors to issue shares under Article 4 of the Company's Articles of Association.

Auditors

As Deloitte & Touche had been the Group's auditors for many years the Directors reviewed the situation during 2003 and, following a competitive tender, decided to appoint PricewaterhouseCoopers LLP. Accordingly Deloitte & Touche resigned on 17 July 2003 and PricewaterhouseCoopers LLP were appointed by the Directors on 2 October 2003. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting, special notice having been given.

By order of the Board



P E Green

Director & Secretary
1 March 2004

Directors' Statement on Corporate Governance

Statement of Appliance of the Principles in the Combined Code

The Company has applied the Principles of Good Governance set out in Section 1 of the Combined Code (issued in June 1998) by complying with the Code of Best Practice as reported in the Statement of Compliance on page 32. Further explanation of how the principles have been applied is set out below and, in connection with Directors' remuneration, in the Remuneration Report on page 34. Although the revised Code does not apply until the 2004 reporting year, progress in complying with the provisions of the revised Code is indicated below.

A. Directors

1. The Board

The Board of Directors retains full and effective control of the Group and is collectively responsible for the Group's success through its leadership. It sets the strategy, ensures appropriate resources are in place and reviews performance on a regular basis. The Board is responsible for setting the Group's values and standards and for ensuring its obligations to shareholders, employees and others are met.

The non executive directors play a full part by constructively challenging and contributing to the development of strategy. The performance of management is monitored, as is the integrity of financial information and effectiveness of financial controls and risk management systems. The non executive directors are responsible for determining appropriate levels of remuneration for the executive directors and have an important role in the appointment of new directors.

The Board meets regularly and receives reports from the Chief Executive on the Group's activities and from the Group Finance Director on financial performance and treasury matters. Strategic issues and other items (including such matters as capital structure, financial reporting and controls) are considered in line with a schedule of matters reserved for the decision of the Board. If a decision is not reserved for the Board then authority lies, in accordance with an authorisation policy, with one of the Finance Committee of the Board, the Chief Executive, an executive director or the managing directors of the individual business units.

The Chairman is Mr M A Stacey and the Chief Executive is Mr T Twigger. The senior independent non executive director is Sir Alan Cox.

The independent non executive directors are considered by the Board to be Sir Alan Cox, Mr D A Robins and Sir Colin Terry.

Committee membership, number of formal meetings held during 2003 and attendance is shown in the following table:

	No. of Meetings whilst appointed	No. of Meetings Attended
Audit		
Sir Alan Cox (Chairman)	3	3
Mr D A Robins	3	3
Sir Donald Spiers (until 22.5.03)	1	1
Sir Colin Terry (from 27.2.03)	2	2
Remuneration		
Mr D A Robins (Chairman from 22.5.03)	4	4
Sir Alan Cox	4	4
Sir Donald Spiers (Chairman to 22.5.03)	2	2
Mr M A Stacey	4	4
Sir Colin Terry (from 27.2.03)	2	2
Nominations		
Mr M A Stacey (Chairman)	2	2
Sir Alan Cox	2	2
Mr D A Robins	2	1
Sir Donald Spiers (until 22.5.03)	1	1
Sir Colin Terry (from 27.2.03)	1	1
Mr T Twigger	2	2

The full Board met on nine occasions and these meetings were attended by all directors except for Dr R W Greaves and Mr J J Stobie who were excused one meeting each.

The Chairman also talks with and holds meetings on an informal basis with the other non executive directors without the executives present. During 2004 the Chairman's performance will be appraised by the non executive directors.

There were no circumstances arising during the year where it was necessary to record unresolved concerns in the Board's minutes.

The Company maintains appropriate Directors' and Officers' insurance.

2. Chairman and Chief Executive

The roles of the Chairman and Chief Executive are separate and there is a clear division of responsibilities which will be recorded in writing and agreed by the Board during 2004. The Chairman was not independent as defined in revised Code Provision A.3.1. on his appointment as he was Chief Executive until January 2001.

The Chairman is responsible for leading the Board and for ensuring its effectiveness. Accurate, timely and clear information is provided to all directors and the Chairman is satisfied that effective communication, principally by the Chief Executive and Group Finance Director, is undertaken with the shareholders. The Chairman facilitates the contribution of non executive directors and the relationship between them and the executive directors.

3. Board Balance and Independence

The Board considers it has a good balance of executive and non executive directors, is of a size and consists of skills and experience appropriate for the requirements of the business.

Details of the non executive directors considered to be independent are provided above. For the period from 27 February, 2003 (when Sir Colin Terry was appointed) to 22 May 2003 (when Sir Donald Spiers resigned) the Board consisted of five executive and five non executive directors of whom four were considered to be independent. From 22 May 2003 until 31 December 2003 there were three independent non executive directors but on 1 January 2004 (when Mr P J Hill was appointed) this once again increased to four.

Over a period of time, in order to ensure an appropriate balance of skills is present on the Board, it is the intention to move to the position where half the Board will consist of independent non executive directors.

The senior independent non executive director is Sir Alan Cox. He is available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate.

4. Appointments to the Board

The Nominations Committee considers any new appointments to the Board but all directors are consulted and the decision to appoint is taken by the Board as a whole. A majority of members are independent and the Committee is chaired by the Chairman. The Committee will make its terms of reference available once formally agreed by the Board during 2004. For the two non executive director appointments made during the year, an external search company provided the initial list of candidates.

The terms and conditions of appointment of non executive directors are available for inspection.

No executive director has a non executive directorship or chairmanship of a FTSE 100 company.

5. Information and Professional Development

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

On joining the Board new directors receive an appropriate induction to the business. Major shareholders have the opportunity to meet new non executive directors should they wish to do so.

Directors are encouraged to update their skills regularly and their knowledge and familiarity with the Group is facilitated by access to senior management, receiving reports on the business and visits to the Group's operating facilities. Resources are available to directors for developing and updating their knowledge and capabilities.

The Board of Directors has established a procedure for all directors to take independent professional advice at the Company's expense where they judge it necessary. Committees are provided with sufficient resources to undertake their duties. All directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are complied with and that there is a good information flow within the Board. The appointment and removal of the Company Secretary are a matter for the Board as a whole.

6. Performance Evaluation

The Board will implement during 2004 an evaluation process of its own performance and that of its committees and individual directors.

7. Re-Election

All directors are subject to election by shareholders at the first annual general meeting after their appointment and to re-election thereafter at intervals of no more than three years. Non executive directors are appointed for specified terms not exceeding three years and are subject to re-election and the provisions of the Companies Act relating to the removal of a director.

Biographical and other relevant information on directors submitted for election or re-election will be provided in the notice of the Annual General Meeting.

B. Directors' Remuneration

1. The Level and Make-up of Remuneration

The Remuneration Committee is responsible for approving remuneration packages needed to attract, retain and motivate executive directors of the required quality. A significant portion of an individual director's remuneration is performance related through a combination of cash bonus and share schemes. Executive share options when granted are only at market value.

The level of fees for non executive directors is set to reflect the time commitment and responsibilities of the role after consulting independent surveys of such fees. Non executive directors are not entitled to receive share options.

None of the executive directors serves as a non executive director for another company.

The policy of the Remuneration Committee is to offer new executive directors contracts requiring one year's notice from the Company. Should the Company terminate the contracts in breach of the contract terms then damages would be due which are equivalent to remuneration for the unexpired period of notice less 5%.

2. Procedure

The Board has appointed a Remuneration Committee of four members, three of whom are considered to be independent. The Committee's Terms of Reference are available. During 2003 Monks Partnership and Mercer Human Resource Consulting were appointed to benchmark senior executives' salaries, the results of which were taken into account when deciding upon salaries to be effective from 1 January 2004. Monks is part of PricewaterhouseCoopers LLP who were appointed the Company's auditors during the year and Mercers are the actuaries and administrators for the UK pension schemes. Monks' surveys have been used over the last few years for the benchmarking of UK salaries.

The Remuneration Committee has responsibility for setting remuneration packages, including pension arrangements, for all executive directors and senior management. The Finance Committee of the Board is responsible for setting the fees of the non executive directors, including the Chairman. No director is involved in deciding his own remuneration.

C. Accountability and Audit

1. Financial Reporting

This report and accounts contains an explanation of the directors' responsibility for the preparation of the accounts and a statement by the auditors concerning their responsibilities. The directors also report that the business is a going concern.

2. Internal Control

The Board maintains a sound system of internal control to safeguard shareholders' investment and the Company's assets. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement or loss. The Board confirms full implementation of the guidance issued by Turnbull.

The process adopted by the Board for identifying, evaluating and managing the significant risks faced by the Company is as follows:

1. The Board receives regular reports at Board Meetings on the state of the business from the Chief Executive and the Group Finance Director.
2. The Audit Committee meets regularly and reviews the effectiveness of the internal control environment of the Group. At these meetings it receives reports from the external auditors and the internal audit department. Internal audit visits to operating units are planned using a risk model. This risk model is based on three areas of risk; business risk, inherent risk and control risk. The model produces a risk score for each operating unit, based on the above risk areas and incorporating ten separate risk indicators. This exercise, completed annually in November by means of an extensive internal audit questionnaire, produces a risk league table, which is used to prioritise internal audit visits. Other factors such as the length of time since last visit, management reviews and year to date operating results are also taken into consideration to ensure a continuous assessment of internal risk. On average, each operating unit currently receives an internal audit visit every two to three years. Following each internal audit visit, a detailed report is written which includes all findings and recommendations. These reports are reviewed by senior management, both at head office and at the operating unit concerned and recommendations are followed up to ensure that they have been implemented.
3. Annually a review of the risk environment is presented to the Board for their consideration along with the effectiveness of the system of internal controls. This review covers material controls, including financial, operational, compliance and risk management systems.
4. The Company's Operations Executive has a regular programme for reviewing various types of risk identified in the businesses and a summary of the key risks is presented to the Board every six months.
5. On an annual basis, each business managing director provides written confirmation that the business for which he is responsible has been in compliance with the Group Procedures Manual.
6. Annually, the Board receives a report on the insurance coverage in place and the risks which remain uninsured.

The Board confirms that this process was in place for the year under review and up to the date of approval of the report and accounts.

The Board considers that there is considerable comfort in the fact that the Group's cash inflow from operating activities represented 98% of operating profit before goodwill amortisation in 2003.

3. Audit Committee and Auditors

The Board has appointed an Audit Committee consisting of three independent non executive directors under the Chairmanship of Sir Alan Cox. The Board is satisfied that amongst the Committee's members there is recent and relevant financial experience.

The Committee has written terms of reference which are available. During 2003 the Committee met on three occasions. On two of these occasions the external auditors attended to discuss the scope and the results of the annual audit in detail along with any other items which the auditors or the non executive directors wished to discuss. The Audit Committee also reviewed the internal control environment of the Group and received reports from Internal Audit as described above.

Directors' Statement on Corporate Governance

The Company places great importance on the independence of its auditors and, together with them, is careful to ensure their objectivity is not compromised.

The Committee is responsible for agreeing the fees to be paid to external auditors in respect of their services as auditors. The Company's general policy in respect of other non-audit fees is:

- audit related services: the external auditors would be invited to undertake those services which they are required to, and most suited to, perform (eg bank covenant letters). The Audit Committee is required to approve any fees to the external auditors in excess of £100,000.
- taxation: the Company's principal tax advisers are Deloitte & Touche LLP.
- consulting: the Company's policy is not to employ its external auditors for general consulting work where this could impair their independence or objectivity.

It is the Board's intention that arrangements will be put in place during the year to enable employees to raise any concerns about possible improprieties in matters of financial reporting or otherwise.

During the year the Board decided following a competitive tender to appoint PricewaterhouseCoopers LLP as its external auditors in place of Deloitte & Touche. This decision was taken with the full support and agreement of the members of the Audit Committee.

D. Relations with Shareholders

1. Dialogue with Institutional Shareholders

The Company values its dialogue with both institutional and private investors. Effective communication with fund managers, institutional investors and analysts is promoted by way of meetings involving the Chief Executive and Group Finance Director. This encompasses such issues as strategy, performance and policy.

The views of shareholders are reported to the Board by the Chief Executive. The Chairman and other non executive directors are available to attend meetings with shareholders if they are requested to do so. In addition to the Chief Executive's regular reports, directors may develop an understanding of the views of major shareholders from presentations by the Company's brokers to the whole Board and attendance at analysts' briefings as required. Analysts' notes on the Company are made available to all directors.

2. Constructive use of the Annual General Meeting

The Board uses the Annual General Meeting as an occasion for communication with its shareholders. All proxy votes are counted by the Company's Registrars and the level of voting on each resolution is made available at the end of the meeting. Separate resolutions are proposed at the Annual General Meeting on substantially separate issues and there is a resolution relating to the report and accounts.

The respective Chairmen of the Audit, Remuneration and Nominations Committees are available at the Annual General Meeting to respond to questions and it is usual for all other directors to attend.

It is the intention of the Board that the Notice of the Annual General Meeting and related papers should be sent to shareholders at least 20 working days before the meeting.

Statement of Compliance with the Provisions of the Combined Code

The Board confirms that throughout the year ended 31 December 2003 the Company has complied with the provisions set out in Section I of the 1998 Combined Code on Corporate Governance issued by the Financial Services Authority with the following exceptions:

- B1.6 and Schedule A – annual bonuses for executive directors are pensionable in order to be consistent with other senior employees. It should be noted that, unlike for uncapped senior employees, contributions are not made in respect of the value of other taxable benefits.
- B2.2 – the Remuneration Committee consists of three independent non executive directors and one non executive director, Mr M A Stacey, who is not considered to be independent. The Board believes it is important that Mr Stacey should be a member of the Committee in his capacity as Chairman of the Company and because of the experience he has gained as a result of his directorships of other companies.

Future Developments

During 2003 the Board discussed the recommendations of the Higgs and Smith reviews and the requirements of the revised Code and has made arrangements for implementation as explained above.

The Board has in its Statement of Appliance of the Principles in the Combined Code endeavoured to report progress in complying with the revised Code although it is not required to provide a Statement of Compliance with the Provisions of the revised Code until next year.

Going Concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. This statement also constitutes part of the Financial Review on pages 8 and 9.

Statement of Directors' Responsibilities

United Kingdom Company law requires the directors 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 result of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Remuneration Report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be considered.

The Regulations require the auditors to report to the Company's members on the Audited Information of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for Unaudited and Audited Information.

Unaudited Information

Remuneration Committee

The Remuneration Committee ('Committee') consists solely of four non executive directors: Mr D A Robins (Committee Chairman from 22 May 2003), Sir Alan Cox, Sir Colin Terry (appointed 27 February 2003) and Mr M A Stacey. Sir Donald Spiers was Chairman of the Committee until his resignation on 22 May 2003. None of the Committee has or has had any personal financial interests, conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

The Committee consults with the Chief Executive and has access to professional advice from inside and outside the Company. In 2003 Monks Partnership and Mercer Human Resource Consulting were appointed by the Committee to benchmark senior executives' salaries, the results of which were taken into account for the salary review which took effect from 1 January 2004. Monks is part of PricewaterhouseCoopers LLP, the Company's auditors and Mercer is the actuary and administrator for the UK pension plans.

Remuneration Policy for Executive Directors

The Committee ensures that executive remuneration packages are designed to attract, motivate and retain directors of a high calibre, to recognise the international and decentralised nature of the Group's business and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the Committee.

The remuneration package for executive directors and senior management is designed to include a significant performance related element. In 2004 the main features are:

- basic annual salary (including directors' fees);
- bonus payments in respect of performance of both the individual and the Group calculated as a percentage of basic salary;
- eligibility for an award of shares under the Company's Equity Participation Scheme;
- eligibility for a grant of options under the Company's Executive Share Option Schemes;
- benefits which include membership of the Executive Pension Plan and the funded unapproved retirement and death benefits scheme, fully expensed car and free medical insurance for the individual and their immediate family.

There are no current plans to change this package for future years.

Basic Salary

An individual's basic salary is reviewed by the Committee to take effect from 1 January of each year and on any significant change of responsibility. In deciding levels of salary the Committee takes into account advice from external consultants, data from appropriate third party surveys covering companies of a similar size and operating in a similar sector to the Company together with salary increases received elsewhere in the Group. Generally, salaries should be at the median to upper quartile level for companies of a similar size and type given the continuing very good profit performance of the Group.

Annual Bonus Payments

The annual bonus payments for Mr Twigger, Mr Young (appointed 1 January 2004) and Mr Green are awarded following consideration of both the performance of the Group and of the individual's contribution to that performance. Annual bonus payments for Dr Greaves and Mr Stobie are based primarily on the performance of their respective business units. The maximum bonus which can be earned by any executive director is 200% of basic salary. Achievement of profit and cash targets together with the individual's personal performance and contribution are the main criteria for awards.

Policy on Share Schemes

The Company's Equity Participation Scheme and Executive Share Option Schemes are an important part of the performance related remuneration of executive directors encouraging them to contribute towards the continuing growth in and performance of the Company by participating in the Company's success along with other shareholders. An award is made under the Equity Participation Scheme on an annual basis if the performance of the Company justifies it, as described below. Annual grants are considered under the Executive Share Option Schemes subject to regulatory limits and scheme limits. There has been no departure from the policy during the period under review or change in the policy from the preceding year and no changes are planned.

It is the Company's policy that directors and senior executives who have received grants of options under the Executive Share Option Schemes or an allocation of shares under the Equity Participation Scheme should retain an investment in the Company's shares once the options have been exercised or shares transferred to the individual amounting to at least one year's salary.

Equity Participation Scheme

The Company's total shareholder return ("TSR") for the year is compared to that of 23 other companies in the aerospace, defence and engineering sectors and if the Company achieves twelfth place or higher, an award is made provided the Committee is satisfied that this result is a genuine reflection of the Company's performance for the same period. The Company believes that this performance condition will reflect the success that an individual shareholder will achieve when selecting in which companies to invest in the above sectors. The award increases the higher the position of the Company in the league table of comparators with a maximum award equivalent to the value of 50% of basic salary for being in first to fifth position. No award is made if the Company is placed lower than twelfth. The shares which are awarded are placed in an employee share ownership trust which is operated by an independent trustee and after three years they become available to the director or executive.

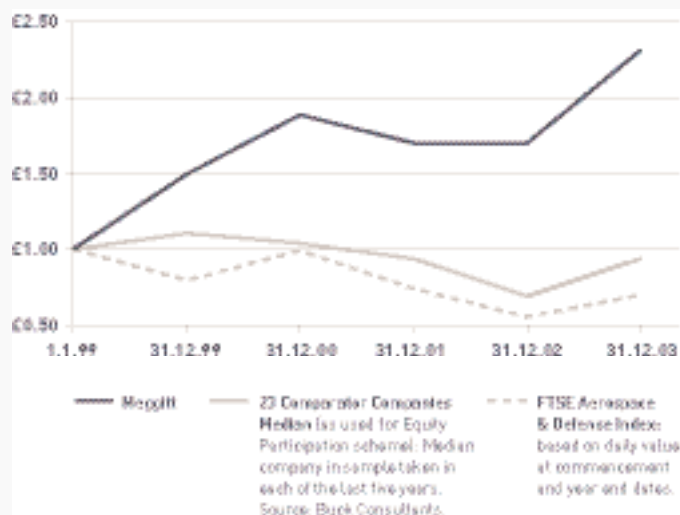
The Company receives advice and verification from Mellon on the TSR calculations. Mellon advises the Company on its executive and employee share schemes and has no other relationship with the Company. There follows a list of the comparator companies used:

AIM Group PLC; Alvis plc; BAE SYSTEMS PLC; Blick plc; Bodycote International plc; Charter plc; Cobham plc; First Technology PLC; GKN PLC; Halma PLC; Intelek PLC; Mayflower Corporation PLC; Rolls-Royce plc; Rotork p.l.c.; Roxboro Group PLC; Senior plc; Smiths Group plc; Spectris plc; Spirax-Sarco Engineering PLC; Spirent plc; TT electronics plc; Ultra Electronics Holdings plc; and VT Group plc.

In 2003 the Company achieved fourteenth position and therefore no award was made.

TSR Five-Year Annual Performance

Growth in the value of a hypothetical £1 holding from 1 January to 31 December in each of the five years:



These comparator indices have been chosen as being the most relevant to the industry in which the Company operates.

Executive Share Option Schemes

The Company has two executive share option schemes, one Inland Revenue approved and the other unapproved. Under these schemes a grant of options may be made over the Company's shares which may only be exercised, at the earliest, three years after grant if an earnings per share performance condition is achieved. Grants for executive directors will not exceed 2 x salary for an initial grant followed by 1 x salary in any single year and the maximum holding for a director is equivalent to 4 x salary. The performance condition requires a rise in the Company's earnings per share to exceed the increase in the retail prices index by 6% over a three year period before exercise. The performance condition was set when the schemes were adopted in 1996 following advice at the time that such a condition was good market practice. This condition is still considered appropriate as there has been no relaxation of the original grant limitations.

The Company's earnings per share performance during the last five years is shown on page 65.

All Employee Share Plan ('AESOP')

The Directors agree an amount of money annually to be set aside from Group profits for the purchase of shares by the Trustee of the AESOP under the provisions of the Finance Act 2000. These shares are allocated to eligible UK employees, including UK Executive Directors, on the basis of total earnings in the year, and are transferred for no consideration.

Directors' Pension Arrangements

The UK based executive directors (the 'UK directors') are members of the Meggitt Executive Pension Plan ('MEPP') which is separate to the Company's main pension scheme. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The pension arrangements provide for a pension on retirement of up to 2/3 final pensionable salaries. The UK directors' pensions are restricted by the Inland Revenue 'pensions cap' which is in effect their pensionable salary for the MEPP. As the UK directors' benefits from and contributions to the MEPP are restricted, as mentioned above, contributions are made on the basic salary in excess of the pensions cap to a funded unapproved retirement and death benefits scheme ('Furbs'). A contribution (at half the rate on basic salary in excess of the pensions cap) is also made to the Furbs in respect of the UK directors' average of cash bonus payments received during the previous three years. This is justified as bonus payments for all other uncapped employees in the MEPP are pensionable on the same basis and, unlike for uncapped employees, contributions are not made in respect of the value of other taxable benefits. As the Furbs is a deferred contribution arrangement, there is no effect on the future funding liabilities of the Company.

The pension contribution for the UK directors and all UK employees (after taking into account the 5% employee contribution) is set following the receipt of actuarial advice from Mercer Human Resource Consulting. Details of any changes in pension entitlements arising in 2003 are shown on page 36. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for directors.

Once the UK Government's intentions are finalised concerning pensions for higher earners, it will be necessary to review the MEPP and the Furbs.

Mr J J Stobie who is based in the USA is a member of the Whittaker Corporation Partnership Plan (a 401k plan) and the Whittaker Corporation Employees' Pension Plan (a frozen pension plan). Dr R W Greaves who is based in Switzerland is a member of Vibro-Meter SA's Pension Plan.

Directors' Contracts

Mr T Twigger and Mr P E Green have rolling service contracts dated 26 February 2002 and it is the intention that Mr S G Young will have a similar contract. The notice period required from the Company is twelve months and they are required to give the Company notice of six months.

Under the contracts for Mr Twigger, Mr Green and Mr Young the Company would pay compensation if it were to terminate the contract in breach of the terms of the contract. The compensation would be the annual salary plus the value of benefits for the unexpired notice period less 5%.

Dr R W Greaves has a service contract dated 1 July 2002 with Vibro-Meter SA requiring twelve months' notice from Vibro-Meter and he is required to give twelve months' notice. Vibro-Meter would pay compensation if it were to terminate the contract in breach of the terms of the contract. There is no provision to calculate compensation payable on early termination. Mr J J Stobie, who is employed by Whittaker Controls Inc., does not have a service contract and his employment is terminable at will.

Remuneration Policy for Non Executive Directors

The remuneration of the non executive directors is determined by the Finance Committee of the Board within the limits set out in the Articles of Association. The Board uses information from external surveys, such as that produced by Monks, in order to set the level of fees. Fees paid to non executive directors during 2003 are shown on page 36.

Non executive directors are appointed for a term of no longer than three years, do not have a contract of service, are not eligible to join the Company's pension scheme and cannot participate in any of the Company's share schemes.

Directors Proposed for Election or Re-Election

At the forthcoming Annual General Meeting, Mr S G Young and Mr P J Hill who were appointed to the Board on 1 January 2004 will stand for election. It is intended that Mr Young will have a service contract with a notice period of twelve months required from the Company. Mr Hill does not have a service contract. Mr P E Green and Mr J J Stobie retire by rotation and are being proposed for re-election. Mr Green has a service contract with a notice period of twelve months required from the Company. Mr Stobie does not have a service contract.

Policy on External Appointments

It is the Company's policy to allow the executive directors to hold external appointments and to receive payment provided such appointments are agreed by the Board or Committee in advance, that there is no conflict of interests and the appointment does not lead to a deterioration in the individual's performance.

Remuneration Report

Audited Information

Details of Directors' Remuneration and Share Interests

	Basic salary 2003 £	Fees 2003 £	Benefits 2003 £	Bonus payments 2003 £	Total emoluments excluding pension 2003 £	2002 £
Executive directors						
T Twigger	310,000	–	21,394	155,000	486,394	421,983
R W Greaves	176,471	–	16,290	63,348	256,109	220,944
P E Green	150,000	–	14,504	75,000	239,504	195,252
J J Stobie	190,373	–	14,892	76,762	282,027	679,855
Non executive directors						
M A Stacey	–	67,000	–	–	67,000	63,000
Sir Alan Cox	–	38,000	2,349	–	40,349	36,727
D A Robins	–	29,000	–	–	29,000	24,750
Sir Colin Terry	–	24,167	–	–	24,167	–
Former directors						
The Rt. Hon. Sir Richard Needham	–	–	–	–	–	11,250
C J Rickard	176,000	–	18,458	–	194,458	248,695
Sir Donald Spiers	–	12,083	–	–	12,083	27,000
Total	1,002,844	170,250	87,887	370,110	1,631,091	1,929,456

Directors' Pension Benefits

Directors' membership of the various pension schemes is shown on page 35.

	T Twigger £	P E Green £	C J Rickard £
Meggitt Executive Pension Plan			
Accumulated total accrued pension at 31 December 2002	15,300	27,300	5,100
Real increase in accrued pension in year excluding inflation	1,500	3,000	3,300
Total increase in accrued pension in year	1,900	3,800	3,400
Accumulated total accrued pension at 31 December 2003	17,200	31,100	8,500
Funded Unapproved Retirement and Death Benefits Scheme			
Company Payments – 2002	103,901	28,864	36,019
– 2003	122,830	37,580	47,645
Whittaker Corporation Employees' Pension Plan			
Accumulated total accrued pension at 31 December 2002			21,700
Increase in accrued pension in year			–
Exchange differences			(2,200)
Accumulated total accrued pension at 31 December 2003			19,500
Whittaker Corporation Partnership Plan (401k)			
Company payments – 2002			14,038
– 2003			12,896

Transfer values do not represent a sum paid or payable to the individual director, but represent a potential liability of the pension scheme.

The Group made payments to the Vibro-Meter SA pension plan of £27,315 (2002: £24,846) in respect of Dr R W Greaves.

Directors' Share Interests

The beneficial interests of the directors in the ordinary shares of the Company at 31 December 2002 (or date of appointment, if later) and 31 December 2003 were as follows:

	Shareholding Ordinary shares of 5p each 2003	2002
M A Stacey	329,155	268,488
T Twigger	216,265	144,055
Sir Alan Cox	30,000	30,000
R W Greaves	58,533	14,098
P E Green	99,844	77,052
D A Robins	8,907	8,820
J J Stobie	25,000	25,000
Sir Colin Terry	-	-

Information has not been included in this section on the share interests of Mr C J Rickard who resigned on 31 December 2003. His interests in shares held in the Company's Share Schemes or Share Option Schemes have lapsed.

Three executive directors were allocated shares at an initial market value of 209.39p under the All Employee Share Plan as follows:

	Ordinary shares of 5p each
T Twigger	1,432
C J Rickard	982
P E Green	921

These shares have been included in the share interests shown in the table above.

The directors' interests in the Equity Participation Scheme and movements therein during the year are set out below:

	Date of allocation	Value of allocation £	Number of shares			Market price at actual date of transfer	First date for transfer to directors
			at 1 Jan 2003	allocated during year	transferred to directors		
T Twigger	17.03.00	70,000	48,780	-	48,780	-	17.03.03
	22.03.01	87,500	38,546	-	-	38,546	22.03.04
	22.03.02	54,999	28,350	-	-	28,350	22.03.05
	14.04.03	137,500	-	79,250	-	79,250	14.04.06
R W Greaves	17.03.00	46,503	32,406	-	32,406	-	17.03.03
	22.03.01	61,923	27,279	-	-	27,279	22.03.04
	22.03.02	31,354	16,162	-	-	16,162	22.03.05
	14.04.03	84,475	-	48,688	-	48,688	14.04.06
P E Green	17.03.00	42,000	29,268	-	29,268	-	17.03.03
	22.03.01	52,498	23,127	-	-	23,127	22.03.04
	22.03.02	24,999	12,886	-	-	12,886	22.03.05
	14.04.03	62,500	-	36,023	-	36,023	14.04.06
J J Stobie	22.03.01	95,485	42,064	-	-	42,064	22.03.04
	22.03.02	42,007	21,653	-	-	21,653	22.03.05
	14.04.03	95,000	-	54,755	-	54,755	14.04.06

The shares were transferred for no consideration. The allocations shown during the year were made in respect of 2002.

The directors' interests at 31 December 2003 in the Restricted Share Scheme are set out below:

	Date of award	Value of award £	Number of shares		Market price at 31 Dec 2003	Date from at date of exercise	which exercisable	Expiry date
			at 1 Jan 2003	exercised during year				
M A Stacey	29.04.96	54,250	58,045	58,045	-	176.00p	29.04.99	29.04.03
T Twigger	29.04.96	33,825	36,192	36,192	-	176.00p	29.04.99	29.04.03

The awards were exercised for a consideration of £1. No further awards exist or will be made under the Restricted Share Scheme.

The directors' interests in options over the ordinary share capital of the Company and movements therein during the year are set out below and on page 38:

	Number of options			Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
	at 1 Jan 2003	Granted	Exercised				
T Twigger							
1996 No 1 Scheme	17,271	-	-	17,271	173.70p	-	19.04.08
1996 No 2 Scheme	109,800	-	109,800	-	116.12p	237.00p	26.03.04
	58,332	-	-	58,332	173.70p	-	19.04.05
	96,685	-	-	96,685	181.00p	-	30.09.06
	5,139	-	-	5,139	217.50p	-	13.12.07
	179,738	-	-	179,738	153.00p	-	26.09.08
	149,863	-	-	149,863	183.50p	-	16.10.09
	-	128,898	-	128,898	240.50p	-	01.10.10
Sharesave Scheme	2,287	-	-	2,287	169.40p	-	30.06.04
	2,571	-	-	2,571	147.00p	-	30.06.06
	621,686	128,898	109,800	640,784			

Remuneration Report

	Number of options			Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date	
	at 1 Jan 2003	Granted	Exercised					
R W Greaves								
1996 No 1 Scheme	16,574	–	16,574	–	181.00p	241.00p	01.10.02	30.09.09
1996 No 2 Scheme	51,669	–	51,669	–	117.09p	211.00p	25.09.01	24.09.05
	61,275	–	61,275	–	186.28p	241.00p	29.03.02	28.03.06
	52,486	–	52,486	–	181.00p	241.00p	01.10.02	30.09.06
	55,803	–	–	55,803	217.50p	–	14.12.03	13.12.07
	102,905	–	–	102,905	153.00p	–	27.09.04	26.09.08
	32,410	–	–	32,410	183.50p	–	17.10.05	16.10.09
	–	25,000	–	25,000	240.50p	–	02.10.06	01.10.10
	373,122	25,000	182,004	216,118				
P E Green								
1996 No 1 Scheme	7,074	–	–	7,074	116.61p	–	27.03.00	26.03.07
	12,521	–	–	12,521	173.70p	–	20.04.01	19.04.08
1996 No 2 Scheme	61,789	–	61,789	–	116.12p	237.00p	27.03.00	26.03.04
	34,916	–	–	34,916	173.70p	–	20.04.01	19.04.05
	47,019	–	–	47,019	181.00p	–	01.10.02	30.09.06
	81,699	–	–	81,699	153.00p	–	27.09.04	26.09.08
	68,119	–	–	68,119	183.50p	–	17.10.05	16.10.09
	–	62,370	–	62,370	240.50p	–	02.10.06	01.10.10
Sharesave Scheme	2,536	–	–	2,536	153.67p	–	01.10.05	31.03.06
	3,984	–	–	3,984	169.40p	–	01.01.06	30.06.06
	4,469	–	–	4,469	147.00p	–	01.01.08	30.06.08
	324,126	62,370	61,789	324,707				
J J Stobie								
1996 No 2 Scheme	70,339	–	–	70,339	181.00p	–	01.10.02	30.09.06
	87,197	–	–	87,197	217.50p	–	14.12.03	13.12.07
	133,516	–	–	133,516	153.00p	–	27.09.04	26.09.08
	104,188	–	–	104,188	183.50p	–	17.10.05	16.10.09
	–	14,368	–	14,368	240.50p	–	02.10.06	01.10.10
	395,240	14,368	–	409,608				

The performance criteria for Share Schemes and Share Option Schemes are shown on pages 34 and 35.

No non executive directors held any options over the Company's shares at any time during the relevant periods. Between 1 January 2004 and 18 February 2004 (the latest date for which it was practical to obtain the information) the following changes occurred in the directors' interests shown above (i) Mr T Twigger and Mr P E Green both acquired 104 shares through the Meggitt PLC All Employee Share Plan; and (ii) Mr T Twigger exercised his Sharesave Scheme option to acquire 2,287 shares.

The market price of the shares at 31 December 2003 was 235.75p and the range during the year was 153.00p to 251.25p. Options may, in certain circumstances, be exercised or lapse earlier than the dates shown on page 37 and above.

	Exercise date	Options exercised	Gain 2003 £'000	Gain 2002 £'000
Gains made on exercise of directors' share options				
M A Stacey	14.04.03	58,045	102	139
T Twigger	14.04.03	36,192	64	–
	10.09.03	109,800	133	327
R W Greaves	16.06.03	51,669	49	–
	25.11.03	16,574	10	–
	25.11.03	61,275	34	–
	25.11.03	52,486	31	–
P E Green	10.09.03	61,789	75	153
			498	619

Gains in 2003 were made on options granted under the rules of the Meggitt 1996 No 1 and No 2 Executive Share Option Schemes and Restricted Share Scheme, as detailed in directors' share interests on page 37 and above.

There are currently no other schemes to benefit directors by enabling them to acquire shares in or debentures of the Company or any other company.

By order of the Board



D A Robins
Chairman, Remuneration Committee
1 March 2004

Independent Auditors' Report to the Members of Meggitt PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the note of Group historical cost profits and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in note 1. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 auditable part of the remuneration report 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the financial highlights, chairman's statement, the chief executive's operating review, financial review, board of directors, directors' statement on corporate governance, the unaudited part of the remuneration report and the five-year record.

We review whether the directors' statement on corporate governance reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 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 to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with 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 auditable part of the remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company'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 auditable part of the remuneration report 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 auditable part of the remuneration report.

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 2003 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Reading
1 March 2004

Notes:

1. The maintenance and integrity of the Meggitt PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Profit and Loss Account

For the year ended 31 December 2003

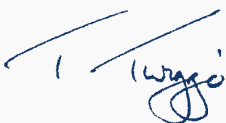
	Notes	2003 Existing £'000	2003 Acquisitions £'000	2003 Continuing £'000	2003 Discontinued £'000	2003 Total £'000	2002 Total £'000
Turnover	2	375,392	23,379	398,771	3,670	402,441	403,840
Cost of sales	3	(202,708)	(14,482)	(217,190)	(2,689)	(219,879)	(219,689)
Gross profit		172,684	8,897	181,581	981	182,562	184,151
Net operating expenses							
– before amortisation of goodwill	3	(93,865)	(3,987)	(97,852)	(1,019)	(98,871)	(105,739)
Operating profit before goodwill amortisation		78,819	4,910	83,729	(38)	83,691	78,412
– amortisation of goodwill	3	(18,862)	(1,323)	(20,185)	–	(20,185)	(18,111)
Operating profit/(loss)	4	59,957	3,587	63,544	(38)	63,506	60,301
Exceptional loss on disposal of discontinued operations	5	–	–	–	(13,334)	(13,334)	(12,967)
Profit/(loss) on ordinary activities before interest		59,957	3,587	63,544	(13,372)	50,172	47,334
Interest payable (net)	8					(8,174)	(8,100)
Profit on ordinary activities before taxation						41,998	39,234
Tax on profit on ordinary activities	9					(21,100)	(21,094)
Profit for the financial year						20,898	18,140
Dividends	11					(22,113)	(20,262)
Loss for the financial year	25					(1,215)	(2,122)
Earnings per share – basic	12					7.2p	6.3p
Earnings per share – diluted	12					7.1p	6.3p
Earnings per share – IIMR	12					18.3p	17.1p
Profit on ordinary activities before taxation, exceptional items and goodwill amortisation						75,517	70,312

Consolidated Balance Sheet

As at 31 December 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Goodwill	13	318,877	306,238
Licences, patents and trademarks	13	637	771
Tangible assets	14	53,312	56,214
Investments	15	1,139	1,401
		373,965	364,624
Current assets			
Stocks	16	73,539	75,431
Debtors – amounts falling due within one year	17	97,956	90,275
Debtors – amounts falling due after more than one year	17	24,343	27,640
Cash at bank and in hand		22,670	27,050
		218,508	220,396
Creditors – amounts falling due within one year	18	(117,151)	(121,220)
Net current assets		101,357	99,176
Total assets less current liabilities		475,322	463,800
Creditors – amounts falling due after more than one year	19	(159,195)	(153,008)
Provisions for liabilities and charges	21	(48,666)	(53,304)
Net assets		267,461	257,488
Capital and reserves			
Called up share capital	23	14,761	14,463
Share premium account	25	155,475	159,327
Other reserves	25	14,064	–
Revaluation reserve	25	55	57
Profit and loss account	25	83,106	83,641
Shareholders' funds – equity	24	267,461	257,488

The financial statements were approved by the Board of Directors on 1 March 2004 and signed on its behalf by:



T Twigger
Director



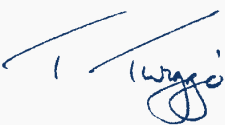
S G Young
Director

Company Balance Sheet

As at 31 December 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	14	593	391
Investments	15	152,395	152,549
		152,988	152,940
Current assets			
Debtors	17	297,204	319,654
Cash at bank and in hand		3,383	5,910
		300,587	325,564
Creditors – amounts falling due within one year	18	(78,321)	(107,710)
Net current assets		222,266	217,854
Total assets less current liabilities		375,254	370,794
Creditors – amounts falling due after more than one year	19	(153,064)	(146,709)
Net assets		222,190	224,085
Capital and reserves			
Called up share capital	23	14,761	14,463
Share premium account	25	155,475	145,263
Other reserves	25	17,556	17,556
Merger reserve	25	–	24,768
Profit and loss account	25	34,398	22,035
Shareholders' funds – equity		222,190	224,085

The financial statements were approved by the Board of Directors on 1 March 2004 and signed on its behalf by:



T Twigger
Director



S G Young
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Cash inflow from operating activities	27		81,659		81,589
Returns on investments and servicing of finance					
Interest received		866		869	
Debt costs paid		(731)		(537)	
Interest paid		(8,406)		(8,722)	
			(8,271)		(8,390)
Taxation			(12,728)		(16,425)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(10,307)		(12,784)	
Sale of tangible fixed assets		401		367	
Sale of investments		262		2,700	
			(9,644)		(9,717)
Cash inflow before corporate items			51,016		47,057
Acquisitions and disposals					
Purchase of businesses	31	(60,454)		(54,400)	
Net cash acquired with businesses		11		1	
Disposal of businesses		3,181		16,246	
Cash disposed with subsidiaries		-		(595)	
			(57,262)		(38,748)
Equity dividends paid			(12,162)		(18,062)
Cash outflow before financing			(18,408)		(9,753)
Financing					
Issue of ordinary share capital		1,876		2,317	
Debt due within one year:					
increase in short term borrowings	29	26,574		21,031	
repayment of short term borrowings	29	(36,567)		(26,112)	
Debt due beyond one year:					
increase in long term borrowings	29	163,030		74,707	
repayment of long term borrowings	29	(140,861)		(67,781)	
			14,052		4,162
Decrease in cash in year	30		(4,356)		(5,591)

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2003

	2003 £'000	2002 £'000
Profit for the financial year	20,898	18,140
Currency translation differences on foreign currency net investments	(13,051)	(11,741)
Taxation charge on foreign exchange differences	-	(988)
Total recognised gains and losses relating to the year	7,847	5,411

Note on Group Historical Cost Profits and Losses

For the year ended 31 December 2003

	2003 £'000	2002 £'000
Reported profit on ordinary activities before taxation	41,998	39,234
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	2	15
Difference between profit on disposal of property calculated on the depreciated historical cost and the actual profit on disposal calculated on the revalued amount	-	608
Historical cost profit on ordinary activities before taxation	42,000	39,857
Historical cost loss for the year retained after taxation and dividends	(1,213)	(1,499)

Notes to the Financial Statements

For the year ended 31 December 2003

1. Accounting Policies

Accounting Convention

The accounts are prepared in accordance with the historical cost accounting convention, modified to include the revaluation of certain assets, and in accordance with applicable United Kingdom accounting standards.

Basis of Consolidation

The Group financial statements consolidate the financial statements of the Company and all subsidiaries for the financial period ended 31 December 2003. The results of all subsidiaries acquired or sold during the year are consolidated for the periods from or to the date on which control passed and acquisitions are accounted for under the acquisition method.

The profit or loss on the disposal of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. An appropriate proportion of total long term contract value is included in turnover and a prudent level of profit is taken based on estimated percentage completion of the contractual obligations if the final outcome can be reliably assessed.

Goodwill

On the acquisition of a business fair values are attributed to the Group's share of separable net assets. Where the cost of acquisition exceeds the fair values of the net assets acquired, the difference is treated as purchased goodwill. After 1 January 1998 goodwill has been capitalised and is being amortised over its estimated useful economic life with a maximum of 20 years. In accordance with the Group's accounting policy prior to FRS 10, goodwill arising on acquisitions prior to 1 January 1998 has been written off to reserves. Such goodwill will be charged to the profit and loss account on any subsequent disposals of the businesses to which it relates.

Licences, Patents and Trademarks

Licences, patents and trademarks are included at cost and amortised in equal instalments over the period of the agreements, which is their estimated useful economic life. Provision is made for any impairment.

Tangible Fixed Assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is not provided on freehold land. On other assets it is provided on cost or revalued amounts in equal annual instalments over the estimated useful lives of the assets as follows:

Freehold buildings	40 to 50 years
Long and short leasehold property	over period of lease
Plant and machinery	3 to 10 years
Fixtures and fittings	3 to 10 years
Motor vehicles	4 to 5 years

Investments

- i) Shares in Group companies are stated at cost less provision for impairment in value except for investments acquired before 1 January 1988 where Section 131 merger relief has been taken when investments are stated at the nominal value of the shares issued in consideration.
- ii) Other investments are stated at cost less provision for impairment in value.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and production overheads. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Long term contracts are dealt with in accordance with SSAP 9 (revised). Provision is made for the full amount of foreseeable losses on contracts.

Deferred Taxation

Deferred taxation is provided in full, without discounting, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred taxation is not provided on timing differences arising from the sale or revaluation of fixed assets unless, at the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will qualify for rollover relief.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. The results of overseas operations are translated at average rates of exchange for the year. Exchange differences arising from the translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the consolidated statement of total recognised gains and losses. Other exchange differences are dealt with through the profit and loss account.

Research and Development

All research and development expenditure is written off as incurred.

Notes to the Financial Statements

For the year ended 31 December 2003

1. Accounting Policies continued

Pension Scheme Arrangements

The Group operates a number of contributory pension schemes and accounts for pension costs in accordance with the requirements of SSAP 24.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the balance sheet.

For defined benefit schemes, defined benefit pension costs and the costs of providing other post retirement benefits are charged to the profit and loss account on a systematic basis over the service lives of the eligible employees in accordance with the advice of qualified independent actuaries.

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The excess of the lease payments over the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation. Rental costs under operating leases are charged to the profit and loss account on a straight line basis over the lease term, even if the payments are not made on such a basis.

Provision for Liabilities and Charges

In accordance with FRS 12 provision is made for onerous property leases, environmental and litigation liabilities and for product warranty claims.

Provisions are discounted where appropriate to reflect the time value of money.

Financial Instruments

The Group uses financial instruments to hedge its exposure to interest rate and foreign currency risk. To the extent that such instruments are matched against an underlying asset or liability, they are accounted for using hedge accounting.

Gains or losses on interest rate instruments are matched against the corresponding interest charge or interest receivable in the profit and loss account over the life of the instrument. For foreign currency instruments, gains or losses and premiums or discounts are matched to the underlying transactions being hedged.

2. Analysis of Turnover, Operating Profit and Assets

	2003	2002
	£'000	Restated £'000
Turnover by Segment		
Aerospace	327,536	308,862
Electronics	71,235	68,632
Continuing	398,771	377,494
Discontinued	3,670	26,346
	402,441	403,840

	By origin		By destination	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Turnover by Country				
UK	109,056	107,430	60,230	65,475
Rest of Europe	54,823	48,896	92,605	86,681
North America	238,562	247,514	209,761	208,778
Rest of World	–	–	39,845	42,906
	402,441	403,840	402,441	403,840

	Operating profit		Operating assets	
	2003	2002	2003	2002
	£'000	Restated £'000	£'000	Restated £'000
Operating Profit and Assets by Segment				
Aerospace	72,513	69,486	108,427	96,277
Electronics	11,216	6,671	13,741	17,367
Unallocated	–	–	(6,528)	(5,474)
Goodwill amortisation	(20,185)	(18,111)		
Continuing	63,544	58,046	115,640	108,170
Discontinued	(38)	2,255	–	592
	63,506	60,301	115,640	108,762

	Operating profit		Operating assets	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Operating Profit and Assets by Country of Origin				
UK	7,598	6,523	30,144	32,015
Rest of Europe	6,806	5,714	27,824	27,755
North America	49,105	48,059	57,664	48,986
Rest of World	(3)	5	8	6
	63,506	60,301	115,640	108,762

	2003 £'000	2002 £'000
Reconciliation of Operating Assets to Net Assets		
Operating assets	115,640	108,762
Investments	1,139	1,401
Goodwill	318,877	306,238
Proposed dividend	(15,057)	(13,740)
Net debt	(140,526)	(139,678)
Net interest liabilities	222	(1,132)
Tax balances	(12,834)	(4,363)
Net assets	267,461	257,488

Items appearing in the consolidated profit and loss account below operating profit are not analysed by class of business or geographical segment.

The 2002 segmental analysis is restated to include as discontinued, the results of the businesses discontinued in 2003.

3. Note to the Profit and Loss Account

	2003 Existing operations £'000	2003 Acquired operations £'000	2003 Continuing operations £'000	2003 Discontinued operations £'000	2003 Total £'000	2002 Restated continuing operations £'000	2002 Restated discontinued operations £'000	2002 Total £'000
Turnover	375,392	23,379	398,771	3,670	402,441	377,494	26,346	403,840
Cost of sales	(202,708)	(14,482)	(217,190)	(2,689)	(219,879)	(202,010)	(17,679)	(219,689)
Net operating expenses:								
Distribution costs	(29,625)	(1,124)	(30,749)	(398)	(31,147)	(30,328)	(2,501)	(32,829)
Research and development expenditure	(19,528)	(280)	(19,808)	(180)	(19,988)	(21,489)	(1,500)	(22,989)
Amortisation of goodwill	(18,862)	(1,323)	(20,185)	-	(20,185)	(18,111)	-	(18,111)
Other administration expenses	(45,057)	(2,587)	(47,644)	(441)	(48,085)	(47,688)	(2,411)	(50,099)
Administration expenses	(83,447)	(4,190)	(87,637)	(621)	(88,258)	(87,288)	(3,911)	(91,199)
Other operating income	345	4	349	-	349	178	-	178
	(112,727)	(5,310)	(118,037)	(1,019)	(119,056)	(117,438)	(6,412)	(123,850)
Operating profit/(loss)	59,957	3,587	63,544	(38)	63,506	58,046	2,255	60,301

4. Operating Profit/(Loss)

	2003 £'000	2002 £'000
Operating profit/(loss) is stated after crediting:		
Rents receivable	720	893
Profit on disposal of fixed assets	15	-
And after charging:		
Depreciation of tangible fixed assets	10,162	11,357
Amortisation of intangible fixed assets including goodwill	20,807	18,400
Loss on disposal of fixed assets	-	357
Auditors' remuneration	955	2,089
Hire of plant and machinery	174	230
Other operating lease rentals	5,539	6,288

Notes to the Financial Statements

For the year ended 31 December 2003

4. Operating Profit/(Loss) continued

During 2003 Meggitt PLC changed its auditors (see Directors' Report page 28). Auditors' remuneration is further analysed as follows:

	2003 £'000	2002 £'000
Payable to Deloitte & Touche up to date of resignation:		
Audit Services : statutory audit: Company	-	40
: statutory audit: Group	-	456
: other audit related reporting: overseas	-	118
Tax services : compliance services: UK	-	209
: compliance services: overseas	-	260
: advisory services: UK	123	150
: advisory services: overseas	290	856
Other services : other: overseas	10	-
	423	2,089
Payable to PricewaterhouseCoopers LLP and network firms from date of appointment:		
Audit Services : statutory audit: Company	65	-
: statutory audit: Group	415	-
: other audit related reporting: overseas	47	-
Other services: other: UK	5	-
	532	-

5. Exceptional Loss on Disposal of Discontinued Operations

- An exceptional loss of £13,337,000 arose in 2003 relating to the disposal of Meggitt Petroleum Systems on 2 May 2003. The loss arose after charging £13,729,000 of goodwill which had previously been written off directly to reserves. Before writing off goodwill the profit on this disposal was £392,000.
- An exceptional loss of £12,936,000 arose in 2002 relating to the disposal of Wayfarer Transit Systems Limited and Systech Solutions Limited on 13 November 2002. The loss arose after charging £18,979,000 of goodwill which had previously been written off directly to reserves. Before writing off goodwill the profit on this disposal was £6,043,000.
- Other business asset and investment sales during 2003 gave rise to a net profit, after making appropriate sale provisions, of £3,000 (2002: loss of £31,000).

No tax credit is available in respect of the exceptional loss in 2003 nor in 2002.

6. Information Regarding Employees

	2003 £'000	2002 £'000
Employee costs during the year including executive directors:		
Wages and salaries	110,048	118,475
Social security costs	16,504	10,594
Other pension costs (see note 33)	10,105	9,739
Total direct costs of employment	136,657	138,808
Average monthly number of persons employed including executive directors:		
Production	2,806	2,942
Selling and distribution	345	373
Administration	331	405
	3,482	3,720

7. Directors' Emoluments and Share Interests

Full details of all elements in the remuneration package of each director together with directors' share interests and share options are given in the Remuneration Report on page 34 which constitutes part of these financial statements.

8. Interest Payable (net)

	2003 £'000	2002 £'000
Interest receivable and similar income:		
Interest on bank deposits	462	573
Other income	404	296
	866	869
Interest payable and similar charges:		
Bank loans, overdrafts and other loans repayable within five years:		
Repayable by instalments	(39)	(152)
Repayable other than by instalments	(4,148)	(8,235)
Senior Notes	(4,066)	–
Other interest	(787)	(582)
	(9,040)	(8,969)
Interest payable (net)	(8,174)	(8,100)

FRS 12 permits provisions to be discounted to reflect the time value of money (see note 21). The unwinding of this discount is reported within other interest.

9. Tax on Profit on Ordinary Activities

	2003 £'000	2002 £'000
Current tax:		
UK corporation tax at 30% (2002 – 30%)	18,285	(977)
Adjustment in respect of prior years	–	213
Double taxation relief	(16,678)	–
Foreign tax	19,926	22,455
Adjustment in respect of prior years	(36)	(3,666)
Total current tax charge	21,497	18,025
Deferred tax:		
Origination and reversal of timing differences	282	4,132
Adjustment in respect of prior years	(679)	(1,063)
Total deferred tax (credit)/charge	(397)	3,069
Tax on profit on ordinary activities	21,100	21,094

Reconciliation of the current tax charge

A reconciliation of the notional current tax charge based on average standard rates of tax (weighted in proportion to accounting profits) to the actual current tax charge is as follows:

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation at average standard tax rates	15,585	15,219
Goodwill amortisation	6,363	6,389
Permanent differences	5,732	6,263
Timing differences	(2,931)	(1,295)
Tax credits and incentives	(3,216)	(5,098)
Prior year credit	(36)	(3,453)
Total current tax charge	21,497	18,025

No provision has been made for taxation that would arise in the event of overseas subsidiaries distributing their reserves as these amounts are retained for investment in the business. Owing to the availability of tax losses and foreign tax credits, it is currently estimated that no additional tax would arise if any such amounts were to be distributed.

Factors that may affect future tax charges relate to deferred tax (see note 22).

10. Profit of Parent Company

The consolidated profit attributable to the shareholders of Meggitt PLC includes a profit, after dividends received, of £14,335,000 (2002: £8,102,000) which has been dealt with in the accounts of that Company. Meggitt PLC has taken advantage of the legal dispensation contained in Section 230 of the Companies Act 1985 allowing it not to publish a separate profit and loss account.

Notes to the Financial Statements

For the year ended 31 December 2003

11. Dividends

	2003 £'000	2002 £'000
Dividends in respect of previous years	17	30
Interim of 2.40p per share paid (2002: 2.25p per share)	7,039	6,492
Final of 5.10p per share proposed (2002: 4.75p per share)	15,057	13,740
	22,113	20,262

Dividends amounting to £13,000 (2002: £Nil) in respect of the Company's shares held by an independently managed Employee Share Ownership Plan (see note 15) have been deducted in arriving at the aggregate of dividends paid and proposed.

12. Earnings per Ordinary Share

a) The calculation of earnings per ordinary share is based on the following:

	2003 £'000	2003 Number ('000)	2003 Pence	2002 £'000	2002 Number (£'000)	2002 Pence
Basic EPS						
Profit attributable to ordinary shareholders	20,898	291,700	7.2	18,140	287,888	6.3
ESOP	–	(168)	–	(22)	(369)	–
	20,898	291,532	7.2	18,118	287,519	6.3
Effect of dilutive potential ordinary shares						
Options	–	1,404	(0.1)	–	1,608	–
Diluted EPS						
Profit attributable to ordinary shareholders	20,898	292,936	7.1	18,118	289,127	6.3

b) The Institute of Investment Management and Research (IIMR) has devised a 'headline' measure of earnings per share which provides an alternative measure for assessing performance.

	2003 £'000	2003 Number ('000)	2003 Pence	2002 £'000	2002 Number (£'000)	2002 Pence
Basic EPS						
Profit attributable to ordinary shareholders	20,898	291,700	7.2	18,140	287,888	6.3
ESOP	–	(168)	–	(22)	(369)	–
	20,898	291,532	7.2	18,118	287,519	6.3
Add back:						
Amortisation of goodwill	20,185		6.9	18,111		6.3
Tax benefit on goodwill amortisation	(1,164)		(0.4)	–		–
Exceptional costs:						
– loss on disposal of discontinued operations	13,334		4.6	12,967		4.5
Earnings per share IIMR basis	53,253	291,532	18.3	49,196	287,519	17.1

13. Intangible Fixed Assets

	Goodwill £'000	Licences, patents and trademarks £'000
Group		
Cost 1 January 2003	364,163	2,603
Exchange rate adjustments	(30,479)	15
Businesses acquired	55,912	–
Additions	–	483
Disposals	–	(14)
Cost at 31 December 2003	389,596	3,087
Amortisation at 1 January 2003	57,925	1,832
Exchange rate adjustments	(7,391)	10
Disposals	–	(14)
Charge for the year	20,185	622
Amortisation at 31 December 2003	70,719	2,450
Net book value at 31 December 2003	318,877	637
Net book value at 31 December 2002	306,238	771

14. Tangible Fixed Assets

	Group			Company		
	Land and Buildings £'000	Plant, equipment and vehicles £'000	Total £'000	Land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost or valuation at 1 January 2003	39,460	109,178	148,638	245	1,480	1,725
Exchange rate adjustments	(1,048)	(4,236)	(5,284)	–	–	–
Businesses acquired	1,129	3,733	4,862	–	–	–
Additions	628	8,176	8,804	–	336	336
Disposals	(2)	(2,778)	(2,780)	–	(190)	(190)
Businesses disposed	(140)	(3,189)	(3,329)	–	–	–
Cost or valuation at 31 December 2003	40,027	110,884	150,911	245	1,626	1,871
At valuation	217	–	217	–	–	–
At cost	39,810	110,884	150,694	245	1,626	1,871
Accumulated depreciation at 1 January 2003	16,509	75,915	92,424	103	1,231	1,334
Exchange rate adjustments	(471)	(3,184)	(3,655)	–	–	–
Businesses acquired	774	2,802	3,576	–	–	–
Charge for year	997	9,165	10,162	7	110	117
Disposals	–	(2,394)	(2,394)	–	(173)	(173)
Businesses disposed	(4)	(2,510)	(2,514)	–	–	–
Accumulated depreciation at 31 December 2003	7,805	79,794	97,599	110	1,168	1,278
Net book value at 31 December 2003	22,222	31,090	53,312	135	458	593
Net book value at 31 December 2002	22,951	33,263	56,214	142	249	391

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Net book value of land and buildings				
Freehold	18,226	19,014	89	92
Long leasehold	1,010	953	–	–
Short leasehold	2,986	2,984	46	50
	22,222	22,951	135	142

The Group's freehold and long leasehold property were valued by Montagu Evans, Chartered Surveyors, on an existing use basis as at 31 December 1989. In accordance with the transitional rules of FRS 15, assets which have been revalued in prior years have not been revalued. On an historic cost basis, land and buildings would be included at cost of £39,952,000 (2002: £39,384,000) less depreciation of £17,785,000 (2002: £16,490,000) giving a net book value of £22,167,000 (2002: £22,894,000). There is no plant, equipment or vehicles held under finance leases and hire purchase contracts included in the Group's fixed assets (2002: £ Nil).

15. Investments Held as Fixed Assets

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Shares in subsidiaries a)	–	–	152,395	152,549
Investment in own shares b)	64	326	–	–
Other investments c)	1,075	1,075	–	–
	1,139	1,401	152,395	152,549

a) Shares in subsidiaries				
At 1 January 2003			152,549	153,161
Provision for impairment in value			(154)	(612)
At 31 December 2003			152,395	152,549

b) Investment in own shares at cost				
At 1 January 2003	326	712	–	–
Disposed in year	(262)	(386)	–	–
At 31 December 2003	64	326	–	–

c) Other investments at cost				
At 1 January and 31 December 2003	1,075	1,075	–	–

The shares in the Company ('own shares') are held by an independently managed Employee Share Ownership Plan which was formed to purchase shares to be used to meet certain of the Company's future obligations in respect of employee share schemes as described in the Remuneration Report on page 34.

Notes to the Financial Statements

For the year ended 31 December 2003

15. Investments Held as Fixed Assets continued

At 31 December 2003 the trust held 58,135 ordinary shares (2002: 281,205 shares) of which 42,635 were allocated to the Meggitt 1996 Executive Share Option Schemes (2002: 281,205 shares) and 15,500 were unallocated (2002: no shares) being retained by the trust for future use. The market value of the shares at 31 December 2003 was £137,000 (2002: £495,000) representing 0.02% of the issued share capital of the Company (2002: 0.09%).

The Group retains the full benefit of these shares until such time as participating employees exercise their options. The trustee has also purchased shares in respect of share schemes where the Group has had no benefit accruing to it from the dates of purchase. Amounts owing in relation to these shares are disclosed under other debtors (see note 17).

At 31 December 2003 other investments represent Delta F Holdings Corporation (registered in Delaware, USA) being 14.1% of issued ordinary share capital. The Group has no significant influence over this investment and, as a consequence, it is held as an investment at historical cost. No provision for impairment is deemed to be required.

16. Stocks

	Group	
	2003 £'000	2002 £'000
Long term contract balances	3,851	9,930
Applicable payments on account	(2,569)	(7,326)
	1,282	2,604
Raw materials and bought-in components	35,409	34,583
Manufacturing work in progress	25,538	25,669
Finished goods and goods for resale	11,310	12,575
	73,539	75,431

17. Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due within one year				
Trade debtors	75,001	70,058	3	–
Amounts recoverable on contracts	3,134	3,016	–	–
Amounts owed by Group companies	–	–	293,793	316,681
Other debtors	12,164	3,892	652	1,190
Prepayments and accrued income	2,914	2,496	1,092	232
Tax recoverable	164	4,133	–	–
Deferred tax	4,579	6,680	–	–
	97,956	90,275	295,540	318,103
Amounts falling due after more than one year				
Trade debtors	150	68	–	–
Other debtors	21,651	25,427	1,664	1,551
Deferred tax	2,542	2,145	–	–
	24,343	27,640	1,664	1,551
	122,299	117,915	297,204	319,654

Other debtors in total includes £19,454,000 (2002: £17,996,000) in respect of insurance receivables arising on environmental issues pertaining to businesses sold by Whittaker Corporation prior to its acquisition by the Group (see note 21) of which £4,413,000 is shown as falling due within one year (2002: £Nil).

Other debtors also includes £650,000 (2002: £397,000) in respect of loans made to the trustee of the Employee Share Ownership Plan (ESOP) for the purpose of purchasing shares in the Company, where the Group has no benefit accruing to it from the dates of award (see note 15). Amounts have been made available to the trustee (Mourant & Co Trustees Ltd, St Helier, Jersey) relating to the loans as follows:

Scheme	Date of award	Value of award	Number of shares
Equity Participation Scheme	22.03.01	£527,726	356,959
	27.03.02	£331,740	174,000
	14.04.03	£916,320	493,304

The shares may be transferred to the participating employees after three years. These amounts are being amortised to the profit and loss account over the relevant periods.

18. Creditors: Amounts Falling Due Within One Year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loans and overdrafts (see note 19)	7,334	18,226	7,334	13,632
Other loans (see note 19)	455	399	-	-
Payments received on account	8,608	5,919	-	-
Obligations under finance leases and hire purchase contracts (see note 19)	2	2	-	-
Trade creditors	29,832	22,654	242	-
Amounts owed to Group companies	-	-	43,964	69,557
UK corporation tax payable	10,612	5,049	7,791	4,800
Overseas tax	6,518	8,723	-	-
Taxation and social security	1,821	1,499	717	312
Other creditors	29,687	35,018	1,129	3,136
Accruals	7,225	9,991	2,087	2,533
Proposed dividend	15,057	13,740	15,057	13,740
	117,151	121,220	78,321	107,710

19. Creditors: Amounts Falling Due After More Than One Year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Obligations under finance leases and hire purchase contracts	3	5	-	-
Bank loans	13,407	146,709	13,407	146,709
Other loans	141,995	1,387	139,657	-
Trade creditors	135	233	-	-
Other creditors	3,655	4,674	-	-
	159,195	153,008	153,064	146,709
Analysis of bank loans and overdrafts repayable:				
in one year or less	7,334	18,226	7,334	13,632
in more than one year but not more than two years	-	146,709	-	146,709
in more than two years but not more than five years	13,407	-	13,407	-
	20,741	164,935	20,741	160,341
Analysis of other loans repayable:				
in one year or less	455	399	-	-
in more than one year but not more than two years	530	165	-	-
in more than two years but not more than five years	1,602	1,147	-	-
in more than five years	139,863	75	139,657	-
	142,450	1,786	139,657	-
Analysis of finance lease and hire purchase obligations repayable:				
in one year or less	2	2	-	-
in more than one year but not more than two years	3	5	-	-
	5	7	-	-

The Company completed a \$250 million US private placement of Senior Notes in June 2003, consisting of a 10 year tranche (\$180 million) and a 12 year tranche (\$70 million). At 31 December 2003 the amount outstanding was \$250 million (£139,657,000) (2002: £Nil).

There are no secured loans except for finance lease and hire purchase obligations which are secured by retention of title to the relevant asset.

20. Financial Instruments

A discussion of the Group's objectives, policies and strategies with regard to financial risk and the use of financial instruments can be found in the Financial Review. Short term debtors and creditors arising directly from the Group's operations are excluded from the following disclosures other than the currency analysis of net assets.

i) Interest Rate and Currency Profile of Financial Liabilities

After taking account of the financial derivatives that alter the interest and currency basis of the financial liabilities entered into by the Group, the interest rate exposure on gross borrowings was:

					Fixed rate borrowings	
	Floating 2003 £'000	Fixed 2003 £'000	Non interest bearing 2003 £'000	Total 2003 £'000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
US dollars	24,493	131,616	-	156,109	5.4	5.3
Swiss francs	26,875	-	-	26,875		
Euro	-	-	2,460	2,460		
	51,368	131,616	2,460	185,444		

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For the year ended 31 December 2003

20. Financial Instruments continued

					Fixed rate borrowings	
	Floating 2002 £'000	Fixed 2002 £'000	Non interest bearing 2002 £'000	Total 2002 £'000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
US dollars	65,456	93,616	–	159,072	6.4-6.8	1.3
Swiss francs	32,011	–	–	32,011		
Euro	–	67	1,437	1,504	2.5	0.5
	97,467	93,683	1,437	192,587		

£61,449,000 of the financial liabilities at fixed rates will convert to floating rates by the end of August 2004 when two interest rate instruments expire.

ii) Interest Rate and Currency Profile of Financial Assets

The interest rate and currency profile of the Group's financial assets after taking account of the financial derivatives was:

	Floating 2003 £'000	Non interest bearing 2003 £'000	Total 2003 £'000	Floating 2002 £'000	Non interest bearing 2002 £'000	Total 2002 £'000
Sterling	22,769	1,084	23,853	29,414	1,085	30,499
US dollars	14,905	15	14,920	13,740	513	14,253
Swiss francs	1,136	14	1,150	717	6	723
Euro	5,621	7	5,628	7,778	8	7,786
Other	442	–	442	723	–	723
	44,873	1,120	45,993	52,372	1,612	53,984

Interest payments on the floating rate assets and liabilities are determined by reference to short term benchmark rates applicable in the relevant currency or market, such as LIBOR, the US Prime Rate and the UK Bank Base Rate.

A number of currency swaps have been executed amounting to £22,248,000 to best utilise surplus cash whilst maintaining asset hedging. This accounts for the higher sterling assets and corresponding higher Swiss Franc liabilities shown in this note compared to those recorded in the Balance Sheet.

iii) Committed Facilities

The Group had the following committed facilities:

	2003			2002		
	Drawn £'000	Undrawn £'000	Total £'000	Drawn £'000	Undrawn £'000	Total £'000
\$250m Senior Notes	139,657	–	139,657	–	–	–
Bilateral credit facility	13,407	28,490	41,897	12,500	6,756	19,256
Syndicated credit facilities	–	125,691	125,691	130,469	220,484	350,953
	153,064	154,181	307,245	142,969	227,240	370,209

The committed facilities outstanding as at 31 December 2003 and 2002 expire as follows:

	2003			2002		
	Drawn £'000	Undrawn £'000	Total £'000	Drawn £'000	Undrawn £'000	Total £'000
in one year or less	–	–	–	37,269	–	37,269
in more than one year but less than two years	–	–	–	105,700	87,480	193,180
in more than two years	153,064	154,181	307,245	–	139,760	139,760
	153,064	154,181	307,245	142,969	227,240	370,209

iv) Uncommitted Facilities

The Group has various uncommitted facilities with its relationship banks.

v) Fair Values

A comparison of current and book values of all the Group's financial instruments is provided below. Where market prices are not available for a particular instrument, fair values have been calculated by discounting future cash flows at prevailing interest rates.

	2003		2002	
Assets/(liabilities)	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial assets	22,670	22,670	27,050	27,050
Borrowings due within one year	(7,791)	(7,791)	(18,627)	(18,627)
Borrowings due after more than one year	(155,405)	(155,405)	(148,101)	(148,101)
Interest rate derivatives	–	(3,080)	–	(6,259)
Foreign exchange derivatives	–	3,024	–	3,899

vi) Currency Exposure

Taking into account the effects of forward contracts and other derivative instruments, the Group did not have a material exposure to foreign exchange gains and losses which would be recognised in the profit and loss account.

vii) Market Price Risk and Credit Risk

The Group uses derivative instruments only for hedging purposes and generally holds its interest bearing assets and liabilities to maturity and therefore does not consider itself subject to price risk. The Group is subject to credit risk on the counterparties to its financial instruments, which it controls through dealing only with highly rated counterparties and netting transactions on settlement where possible.

viii) Hedges

The Group's policy is to use derivative instruments to hedge against exposure to movements in interest rates and exchange rates. Changes in the fair value of instruments used for hedging are not recognised in the financial statements until the hedged exposure is itself recognised. Unrecognised gains and losses on instruments used for hedging purposes are set out below:

	Gains £'000	Losses £'000	Total net gains/(losses) £'000
Unrecognised gains and losses on hedges at 1 January 2003	4,076	(6,436)	(2,360)
Less: gains and losses arising in previous years that were recognised in the year	3,824	(4,360)	(536)
Gains and losses arising before 1 January 2003 that were not recognised at 31 December 2003	252	(2,076)	(1,824)
Gains and losses arising in the year that were not recognised at 31 December 2003	2,919	(1,151)	1,768
Unrecognised gains and losses on hedges at 31 December 2003	3,171	(3,227)	(56)
Of which:			
Gains and losses expected to be recognised in 2004	3,171	(2,434)	737
Gains and losses expected to be recognised in 2005 or later	–	(793)	(793)

21. Provisions for Liabilities and Charges

	Environmental & litigation (a) £'000	Empty property costs (b) £'000	Warranty costs (c) £'000	Deferred tax (see note 22) £'000	Group total £'000
Balance at 1 January 2003	40,797	3,250	5,708	3,549	53,304
Exchange rate adjustments	(2,344)	(203)	(204)	(288)	(3,039)
Acquisitions/disposal of businesses (net)	–	533	1,168	(13)	1,688
Charge/(credit) to profit and loss account	6,654	(45)	3,940	(259)	10,290
Utilised	(8,845)	(1,006)	(3,961)	–	(13,812)
Interest movement	78	157	–	–	235
Balance at 31 December 2003	36,340	2,686	6,651	2,989	48,666

a) Provision has been made for the probable exposure arising from environmental and litigation claims in a number of disposed businesses. These primarily relate to environmental issues pertaining to businesses sold by Whittaker Corporation prior to its acquisition by the Group. Appropriate insurance coverage has been taken out by the Group to cover such risks. Provision has been made for the gross estimated liability and an asset of £19,454,000 (2002: £17,996,000) has been recognised as a debtor for the amounts recoverable from the insurers. At acquisition, Whittaker was also subject to certain litigation claims, both existing and threatened, relating to businesses it had sold but for which it retained a liability. A provision exists representing the best estimate of the outcome of the claims including costs. The provisions are expected to be utilised over the next ten years.

b) Provision has been set up for the estimated rental shortfall in respect of empty properties and will be utilised over the lease terms.

c) Provision has been made for product warranty claims. These provisions are expected to be utilised over the next three years.

22. Deferred Tax

Movement on net deferred tax balances:

	Group £'000
Net balance at 1 January 2003	(5,276)
Exchange rate adjustments	645
Credited to profit and loss account	(397)
Reclassifications	896
Net balance at 31 December 2003	(4,132)
Disclosed as:	
(Debtors) falling due within one year	(4,579)
(Debtors) falling due after more than one year	(2,542)
Provision for deferred tax payable	2,989
Net deferred tax (debtor)	(4,132)

Notes to the Financial Statements

For the year ended 31 December 2003

22. Deferred Tax continued

	Group	
	2003 £'000	2002 £'000
Accelerated capital allowances	37	–
Provisions	(6,722)	(8,115)
Other timing differences	2,553	2,839
Net balance	(4,132)	(5,276)

Deferred taxation has not been provided on revaluations of fixed assets and it is estimated that no tax would become payable on their disposal, owing to the availability of capital losses or rollover relief. The Group has unprovided deferred tax assets of £11 million (2002: £16 million). The majority of these timing differences relate to the group's operations in the USA. Deferred taxation assets have not been recognised in respect of these items, as it is not regarded as more likely than not that they will be recovered. Deferred taxation assets not recognised would be recoverable in the event that they reverse and suitable taxable profits are available.

23. Called Up Share Capital

	2003 £'000	2002 £'000
Ordinary shares of 5p each		
Authorised: 374,000,000 shares (2002: 374,000,000)	18,700	18,700

	No of shares	Nominal value £'000	Net consideration £'000
Allotted and fully paid:			
Balance at 1 January 2003	289,261,102	14,463	
Issued on exercise of executive share options	1,172,765	59	1,631
Issued on exercise of SAYE share options	188,742	9	293
Scrip dividends	4,603,117	230	8,586
Balance at 31 December 2003	295,225,726	14,761	

Year of grant	No of ordinary shares under option	Exercise price per share	Exercise period	
			From	To
i) Meggitt 1998 Sharesave Scheme:				
1998	19,524	153.67p	01.10.03	31.03.04
1998	70,245	153.67p	01.10.05	31.03.06
2000	119,643	169.40p	01.01.04	30.06.04
2000	149,786	169.40p	01.01.06	30.06.06
2000	42,944	169.40p	01.01.08	30.06.08
2002	193,119	147.00p	01.01.06	30.06.06
2002	253,800	147.00p	01.01.08	30.06.08
2002	39,736	147.00p	01.01.10	30.06.10
ii) Meggitt PLC 1984 Share Option Scheme:				
1994	31,000	70.16p	24.10.97	23.10.04
iii) Meggitt 1996 No 1 Executive Share Option Scheme:				
1997	7,074	116.61p	27.03.00	26.03.07
1997	20,457	132.09p	25.09.00	24.09.07
1998	55,410	173.70p	20.04.01	19.04.08
1998	5,422*	117.09p	25.09.01	24.09.08
1999	68,121	181.00p	01.10.02	30.09.09
2000	116,803	217.50p	14.12.03	13.12.10
2001	19,607	153.00p	27.09.04	26.09.11
2002	53,184	183.50p	17.10.05	16.10.12
2003	81,716	240.50p	02.10.06	01.10.13
iv) Meggitt 1996 No 2 Executive Share Option Scheme:				
1997	41,334	132.09p	25.09.00	24.09.04
1998	264,245	173.70p	20.04.01	19.04.05
1998	37,213*	117.09p	25.09.01	24.09.05
1999	646,101	181.00p	01.10.02	30.09.06
2000	1,071,897	217.50p	14.12.03	13.12.07
2001	1,626,347	153.00p	27.09.04	26.09.08
2002	1,482,434	183.50p	17.10.05	16.10.09
2003	1,496,355	240.50p	02.10.06	01.10.10
v) Meggitt PLC Discretionary Overseas Share Option Scheme:				
1994	10,333	70.16p	24.10.97	23.10.04

All the above options which were granted for nil consideration, may in certain circumstances, be exercised earlier than the dates given.

Shares under option marked * have been purchased in the market from previously issued share capital and are held by the trustee of the ESOP as shown in note 15.

24. Reconciliation of Movements in Shareholders' Funds

	2003 £'000	2002 £'000
Profit for the financial year	20,898	18,140
Dividends	(22,113)	(20,262)
Other recognised losses relating to the year	(13,051)	(12,729)
New share capital subscribed (net of costs)	10,510	3,952
Goodwill transferred to profit and loss account on disposal	13,729	18,979
Net increase in shareholders' funds	9,973	8,080
Opening shareholders' funds as previously reported	257,488	249,408
Closing shareholders' funds	267,461	257,488

25. Capital and Reserves

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Other reserves £'000	Profit and Loss account £'000	Total £'000
Group						
Balance at 1 January 2003	14,463	159,327	57	–	83,641	257,488
Loss for the financial year	–	–	–	–	(1,215)	(1,215)
Foreign currency translation adjustments	–	–	–	–	(13,051)	(13,051)
Additional depreciation on revalued assets	–	–	(2)	–	2	–
Goodwill transferred to profit and loss account on disposal of subsidiary	–	–	–	13,729	–	13,729
Merger reserve realised on disposal of subsidiaries	–	–	–	(24,768)	24,768	–
Reclassification of reserves	–	(14,064)	–	25,103	(11,039)	–
Issue of shares in connection with the exercise of executive share options, SAYE share options and scrip dividend	298	10,212	–	–	–	10,510
Balance at 31 December 2003	14,761	155,475	55	14,064	83,106	267,461
Company						
Balance at 1 January 2003	14,463	145,263	–	42,324*	22,035	224,085
Loss for the financial year	–	–	–	–	(7,791)	(7,791)
Foreign currency translation adjustments	–	–	–	–	(1,708)	(1,708)
Taxation on foreign currency differences	–	–	–	–	(2,906)	(2,906)
Merger reserve realised on disposal of subsidiaries	–	–	–	(24,768)	24,768	–
Issue of shares in connection with the exercise of executive share options, SAYE share options and scrip dividend	298	10,212	–	–	–	10,510
Balance at 31 December 2003	14,761	155,475	–	17,556	34,398	222,190

*including merger reserve of £24,768,000.

26. Commitments

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Capital Commitments				
Contracted for but not provided	3,015	2,630	35	10

Operating Lease Commitments

Commitments under operating leases to pay rentals during the year following the year of these financial statements are given in the table below, analysed according to the period in which each lease expires.

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Land and buildings:				
Expiring in one year or less	380	536	–	–
Expiring in more than one year but not more than two years	781	268	–	–
Expiring in more than two years but not more than five years	776	1,171	56	14
Expiring in more than five years	4,052	4,485	–	34
	5,989	6,460	56	48
Other assets:				
Expiring in one year or less	21	29	–	–
Expiring in more than one year but not more than two years	65	54	–	–
Expiring in more than two years but not more than five years	132	101	–	–
	218	184	–	–

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27. Reconciliation of Operating Profit to Operating Cash Flow

	2003 £'000	2002 £'000
Operating profit	63,506	60,301
Depreciation and amortisation	30,969	29,757
Stocks	3,237	7,575
Debtors	(10,192)	(17,949)
Creditors	(5,846)	1,548
(Profit)/Loss on disposal of fixed assets	(15)	357
Cash flow from operating activities	81,659	81,589

28. Major Non-Cash Transactions

During the year Meggitt PLC issued 4,603,000 shares worth £8,634,000 in respect of scrip dividends (2002: 807,000 shares worth £1,634,000).

29. Analysis of Net Debt

	At 1 January 2003 £'000	Cash flow £'000	Acquisitions & disposals (net) £'000	Exchange movement £'000	At 31 December 2003 £'000
Cash	27,050	(4,445)	11	54	22,670
Overdrafts	(90)	89	–	1	–
Net cash	26,960	(4,356)	11	55	22,670
Debt due within one year	(18,537)	9,993	–	753	(7,791)
Debt due after one year	(148,101)	(22,169)	–	14,865	(155,405)
Net debt	(139,678)	(16,532)	11	15,673	(140,526)

30. Reconciliation of Net Cash Flow to Movement in Net Debt

	2003 £'000	2002 £'000
Decrease in cash in the year	(4,356)	(5,591)
Increase in debt financing	(12,176)	(1,845)
Change in net debt resulting from cash flows	(16,532)	(7,436)
Cash acquired with subsidiaries	11	–
Exchange differences	15,673	17,203
Movement in net debt in the year	(848)	9,767
Net debt at 1 January	(139,678)	(149,445)
Net debt at 31 December	(140,526)	(139,678)

31. Acquisitions and Disposals

Acquisitions and disposals completed during 2003 were as follows:

January	Acquisition of TCC valve product line from General Electric Company.
April	Acquisition of Caswell International Corporation.
May	Disposal of assets of Meggitt Petroleum Systems.
December	Acquisition of Western Design Howden Inc and Howden Airdynamics Inc.

The acquisitions were accounted for using the acquisition method.

	2003 Acquisitions £'000
Net assets acquired:	
Fixed Assets	1,285
Stocks	6,968
Debtors	7,214
Creditors	(9,077)
Provisions for liabilities	(1,870)
Net cash	11
Total	4,531

Analysis of net outflow of cash in respect of acquisitions:

	2003 £'000	2002 £'000
Cash consideration paid including costs	60,454	54,400
Net outflow of cash and cash equivalents for acquisitions	60,443	54,399

Goodwill Arising

	2003 Acquisitions £'000	2002 Acquisition Amendments £'000	2003 Total £'000
Consideration	60,609	(166)	60,443
Fair Value of Net Assets Acquired	(7,866)	3,335	(4,531)
Goodwill arising	52,743	3,169	55,912

The cumulative amount of goodwill written off to reserves at 31 December 2003 was £49.7 million (2002: £63.5 million) arising in respect of acquisitions prior to 1 January 1998.

Acquisitions

Goodwill on acquisitions based upon an allocation of fair values comprised £17.3 million in respect of TCC valves, £12.8 million in respect of Caswell, £12.8 million in respect of Western Design, and £9.8 million in respect of Airdynamics. No material fair value adjustments were made.

A provisional fair value table is given below:

	Net assets at date of Acquisition £'000	Accounting Policy Alignment £'000	Revaluations £'000	Fair value at date of Acquisition £'000
Fixed assets	1,385	(35)	(46)	1,304
Stocks	6,167	989	–	7,156
Debtors	9,161	(2,366)	–	6,795
Creditors	(5,530)	–	–	(5,530)
Provisions for liabilities	(1,273)	(64)	(533)	(1,870)
Net cash	11	–	–	11
Total	9,921	(1,476)	(579)	7,866

Accounting policy alignments include revenue recognition policy changes to conform with established Group policy. Revaluation adjustments refer to the creation of an FRS12 empty property provision and fixed asset adjustments.

The businesses' contributions to the Group net operating cash flow, interest paid, tax paid and capital expenditure were not material. Trading results since acquisition are shown on the face of the profit and loss account; no individual acquisition is considered material.

Amendment to the fair value of 2002 acquisitions

The amendment to 2002 acquisitions relates to the acquisitions of radio frequency cable products of Kaman Aerospace Corporation, military product lines of BAE SYSTEMS Avionics Group and assets and business of Lodge. The 2002 provisional fair values of net assets have been revised in the year, principally due to additional contract liabilities and net of amounts received from the vendors of the businesses.

The total adjustment to the fair value of net assets was a reduction of £3.2 million.

Disposals

The net effect of the disposal of businesses is analysed as follows:

	£'000
Net assets disposed of:	
Tangible fixed assets	814
Stocks	1,184
Debtors	1,358
Creditors	(431)
Provision for liabilities and charges	(139)
	2,786
Loss on disposal	(13,334)
Goodwill previously written off to reserves	13,729
Consideration received in cash net of costs	3,181

The trading results prior to disposal are shown on the face of the profit and loss account. Contributions to the Group net operating cash flow, interest paid, tax paid and capital expenditure by disposed businesses were not material.

Notes to the Financial Statements

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32. Contingent Liabilities

The parent Company has given guarantees in respect of uncommitted credit facilities for certain of its subsidiaries, some property leases, other leasing arrangements and the performance by some current and former subsidiaries of certain contracts. Also, there are similar guarantees given by certain of the management companies.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

33. Pensions

a) Group Schemes

In the UK, most employees are members either of the Meggitt Group 1990 Pension Plan (1990 Plan) or the Meggitt Executive Pension Plan (MEPP).

These are defined benefit plans, the assets of which are held in trust funds separate from the Group's finances.

The latest actuarial valuation of the 1990 Plan carried out as at 1 July 2001 showed that the Plan was 108% funded on estimated final salaries using a 3% per annum gap between salaries and yields. The assets were valued at £134.2 million.

The latest actuarial valuation of the MEPP was carried out as at 6 April 2001 and was 109% funded using a 2.5% per annum gap between salaries and yields. These assets were valued at £32.0 million.

These valuations do not take into account any impact of the fall in general stock market values since these dates. Any such impact will be reflected in the next respective SSAP 24 triennial valuations based upon which subsequent pension costs will be determined. The pension costs relating to the Plans are assessed in accordance with the advice of Mercer Human Resource Consulting, consulting actuaries. They used the projected unit method for the 1990 Plan and the attained age method for the Executive Plan. The figures currently used for accounting purposes as regards pension costs are likely to change significantly as and when FRS 17 is adopted.

The pension charge in the UK for the year was £5.3 million (2002: £3.5 million). An amount of £3.7 million (2002: £4.0 million) is included in other debtors, being the excess of the amount funded over the amount charged to the profit and loss account. This is being amortised over the average remaining service lifetime of employees.

In the USA most employees are covered by defined contribution 401k plans. In 1994, prior to acquisition by the Group, Whittaker Corporation amended its 401k plans and also froze benefits to the Whittaker Corporation Employees' Pension Plan (Whittaker Frozen Plan), a defined benefit scheme. This frozen plan is reviewed annually for FASB87 purposes by Aon Consulting and at 31 December 2003 the assets were valued at \$116.8 million (2002: \$110.3 million) with a projected benefit obligation of \$132.7 million (2002: \$134.0 million).

In other overseas countries the Group provides pensions in accordance with statutory requirements and local customs and practice.

In 2003 the actual profit and loss charge to the Group for overseas defined contribution pensions was £4.8 million (2002: £6.2 million).

b) FRS 17 Retirement Benefits

In November 2000 the Accounting Standards Board (ASB) issued FRS 17 'Retirement Benefits', replacing SSAP 24 'Accounting for Pension Costs'. In November 2002 an amendment to FRS 17 was published which allowed an extension to the transitional arrangements of FRS 17. The probability of implementation is uncertain and partly dependent upon proposals from the International Accounting Standards Board (IASB). The Group will take advice to ensure that it continues to adopt best practice in respect of accounting for retirement benefits. The Group is in the third year of the transitional arrangements under FRS 17 and the required disclosures are made below.

Assumptions, asset, liability and reserves disclosures

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations (at April 2001 for MEPP, July 2001 for the 1990 Plan and December 2003 for the Whittaker Frozen Plan and Whittaker unfunded plans) and updated by the actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2003. Scheme assets are stated at their market value at 31 December 2003.

Employer cash contributions to defined benefit plans for the year were: MEPP £1.1 million (2002: £0.7 million), 1990 Plan £4.2 million (2002: £1.6 million), Whittaker Frozen Plan £2.7 million (2002: £3.8 million) and Whittaker unfunded plans £0.5 million (2002: £0.5 million).

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	2003		2002		2001	
	MEPP	1990 Plan	MEPP	1990 Plan	MEPP	1990 Plan
Discount rate	5.50%	5.50%	5.75%	5.75%	6.00%	6.00%
Inflation rate	2.50%	2.50%	2.25%	2.25%	2.50%	2.50%
Increase to deferred benefits during deferment	2.50%	2.50%	2.25%	2.25%	2.50%	2.50%
Increases to pensions in payment	2.50%	2.50%	2.25%	2.25%	2.50%	2.50%
Salary increases	3.50%	3.50%	3.75%	3.75%	4.50%	4.00%

	2003		2002		2001	
	Whittaker Frozen Plan	Whittaker unfunded plans	Whittaker Frozen Plan	Whittaker unfunded plans	Whittaker Frozen Plan	Whittaker unfunded plans
Discount Rate	6.25%	6.25%	6.50%	6.50%	7.25%	7.25%

The Whittaker Frozen Plan and unfunded plan liabilities are not subject to additional accrual of benefits or inflation increases.

The assets in the schemes and the expected rates of return were:

	2003						
	Long term rate of return				Value		
	UK	US	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group Total £'000
Equities	7.50%	10.00%	21,441	88,371	20,221	-	130,033
Bonds	5.50%	6.46%	8,460	10,587	42,361	-	61,408
Property	-	-	-	13,230	-	-	13,230
Cash	7.50%	-	210	-	-	-	210
Other Assets	-	1.00%	-	-	2,650	-	2,650
Total market value of assets at 31 December 2003			30,111	112,188	65,232	-	207,531
Present value of scheme liabilities			(37,466)	(163,919)	(74,135)	(2,668)	(278,188)
Deficit in the scheme at 31 December 2003			(7,355)	(51,731)	(8,903)	(2,668)	(70,657)
Related deferred tax asset			2,207	15,519	3,521	1,055	22,302
Net pension liability at 31 December 2003			(5,148)	(36,212)	(5,382)	(1,613)	(48,355)

	2002						
	Long term rate of return			Value			
	UK	US	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group Total £'000
Equities	7.50%	10.00%	17,789	76,856	15,902	–	110,547
Bonds	5.75%	5.70%	8,029	7,302	49,991	–	65,322
Property	7.50%	–	–	11,563	–	–	11,563
Other Assets	–	1.00%	–	–	2,609	–	2,609
Total market value of assets at 31 December 2002			25,818	95,721	68,502	–	190,041
Present value of scheme liabilities			(32,659)	(141,170)	(83,236)	(3,180)	(260,245)
Deficit in the scheme at 31 December 2002			(6,841)	(45,449)	(14,734)	(3,180)	(70,204)
Related deferred tax asset			2,052	13,635	5,827	1,258	22,772
Net pension liability at 31 December 2002			(4,789)	(31,814)	(8,907)	(1,922)	(47,432)

	2001						
	Long term rate of return				Value		
	UK	US	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group Total £'000
Equities	7.00%	9.75%	22,211	102,634	13,524	–	138,369
Bonds	5.00%	6.75%	8,958	9,404	63,691	–	82,053
Property	7.00%	–	–	10,748	–	–	10,708
Other Assets	Nil	Nil	–	288	442	–	730
Total market value of assets at 31 December 2001			31,169	123,034	77,657	–	231,860
Present value of scheme liabilities			(30,527)	(133,762)	(87,618)	(3,589)	(255,496)
Surplus/(deficit) in the scheme at 31 December 2001			642	(10,728)	(9,961)	(3,589)	(23,636)
Related deferred tax (liability)/asset			(193)	3,218	3,940	1,419	8,384
Net pension asset/(liability) at 31 December 2001			449	(7,510)	(6,021)	(2,170)	(15,252)

The impact on the balance sheet and reserves at 31 December of adopting FRS 17 would be as follows:

	2003 Group £'000	2002 Group £'000
Net assets	267,461	257,488
Adjust for net pension (asset)/liability already recognised in net assets	(1,337)	356
Adjusted net assets	266,124	257,844
Net pension liability	(48,355)	(47,432)
Net assets including pension liability	217,769	210,412
Profit and loss reserve	83,106	83,641
Adjust for net pension (asset)/liability already recognised in profit and loss reserve	(1,337)	356
Adjusted profit and loss reserve	81,769	83,997
Net pension liability	(48,355)	(47,432)
Adjusted profit and loss reserve including pension liability	33,414	36,565

Notes to the Financial Statements

For the year ended 31 December 2003

33. Pensions continued

The charge to operating profit as a result of adopting FRS 17 would be as follows:

	2003				
	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group £'000
Service cost	936	2,865	–	–	3,801
Operating charge	936	2,865	–	–	3,801

	2002				
	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group £'000
Service cost	961	3,067	–	–	4,028
Operating charge	961	3,067	–	–	4,028

The finance charges as a result of adopting FRS 17 would be as follows:

	2003				
	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group £'000
Expected return on pension scheme assets	1,802	7,056	5,450	–	14,308
Interest on pension liabilities	(1,878)	(8,083)	(5,061)	(190)	(15,212)
Net financial return	(76)	(1,027)	389	(190)	(904)

	2002				
	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group £'000
Expected return on pension scheme assets	1,971	8,310	6,382	–	16,663
Interest on pension liabilities	(1,816)	(7,978)	(6,108)	(234)	(16,136)
Net financial return	155	332	274	(234)	527

The effect on the statement of recognised gains and losses as a result of adopting FRS 17 would be as follows:

	2003				
	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group £'000
Actual return less expected return on assets	2,324	9,296	2,113	–	13,733
Experience gains and losses on liabilities	(384)	(2,120)	1,045	(17)	(1,476)
Changes in assumptions	(2,552)	(13,737)	(1,664)	(40)	(17,993)
Actuarial (loss)/gain recognised in statement of recognised gains and losses	(612)	(6,561)	1,494	(57)	(5,736)

	2002				
	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group £'000
Actual return less expected return on assets	(6,571)	(32,540)	(3,635)	–	(42,746)
Experience gains and losses on liabilities	(1,449)	(1,229)	129	(78)	(2,627)
Changes in assumptions	621	220	(5,415)	(139)	(4,713)
Actuarial loss recognised in statement of recognised gains and losses	(7,399)	(33,549)	(8,921)	(217)	(50,086)

The movement in the deficit in the year is explained as follows:

	2003				Group £'000
	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	
Deficit in scheme at beginning of year	(6,841)	(45,449)	(14,734)	(3,180)	(70,204)
Movement in year:					
Current service cost	(936)	(2,865)	–	–	(3,801)
Contributions	1,110	4,171	2,748	464	8,493
(Interest cost)/net return on assets	(76)	(1,027)	389	(190)	(904)
Exchange translation differences	–	–	1,200	295	1,495
Actuarial (loss)/gain	(612)	(6,561)	1,494	(57)	(5,736)
Deficit in scheme at end of year	(7,355)	(51,731)	(8,903)	(2,668)	(70,657)

FRS 17 history

The following disclosures will be built up over time as a five year history:

	2003 Group		2002 Group	
	% of scheme assets/liabilities	£'000	% of scheme assets/liabilities	£'000
Difference between expected and actual return on scheme assets	6.6%	13,733	(22.5%)	(42,746)
Experience gains and losses on scheme liabilities	0.5%	(1,476)	1.0%	(2,627)
Total amount recognised in statement of total recognised gains and losses	2.1%	(5,736)	19.2%	(50,086)

34. Group Companies

The following information is not a complete listing of all subsidiary companies at 31 December 2003 but relates only to those subsidiaries principally affecting the profits or assets of the Group.

United Kingdom

Meggitt (UK) Limited
Meggitt Defence Systems Limited

Meggitt International Limited**
Meggitt Investments Limited**

Meggitt Properties PLC**
Whittaker Aerospace Ltd†

Continental Europe

Meggitt BV – Netherlands†
Navarra de Componentes Electronicos SA – Spain

Piher International GmbH – Germany

Vibro-Meter SA – Switzerland

USA

Avica, Inc
Caswell International Corporation
Endevco Corporation
Howden Airdynamics Inc†
Meggitt Defense Systems, Inc
Meggitt GP Inc†

Meggitt Holdings (California) Inc†
Meggitt Holdings (USA) Inc†
Meggitt Oregon, Inc
Meggitt Safety Systems Inc
Meggitt-USA, Inc†
Piher International Corporation

S-Tec Corporation
Transducer Technology, Inc
Vibro-Meter Inc
Western Design Howden Inc†
Whittaker Controls Inc
Whittaker Corporation†

- i) Companies listed above in the United Kingdom are incorporated in England and Wales. Other companies listed above are incorporated in the country named.
- ii) The ordinary shares of all subsidiaries were 100% owned by Meggitt PLC either directly or indirectly at 31 December 2003.
- iii) All companies are included in the consolidation.
- iv) Companies marked * are direct subsidiaries of Meggitt PLC.
- v) Companies marked ‡ are management companies. Otherwise all companies are operating companies engaged in the Group's principal activities as described in the Report of the Directors on page 28.
- vi) Companies marked † were acquired from Howden Defense Systems Inc on 10 December 2003 (see page 28). Western Design Howden Inc changed its name to Meggitt Western Design Inc on 20 January 2004 and Howden Airdynamics Inc changed its name to Meggitt Airdynamics Inc on 30 January 2004.

A full list of subsidiary companies will be annexed to the next annual return to the Registrar of Companies.

Financial Calendar and Supplementary Information

Dividends

The proposed 2003 final dividend of 5.10p per share, if approved, will be paid on 2 July 2004 to shareholders on the register on 2 April 2004. The expected dividend payment date for the 2004 interim dividend is 3 December 2004.

Results Announcements (provisional)

2004 interim results announcement	– September 2004
2004 full year results	– preliminary announcement March 2005 – report and accounts April 2005

Shareholder Enquiries

Enquiries in respect of the following administrative matters should be addressed to the Company's registrar, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. Telephone 0870 703 6210 or email web.queries@computershare.co.uk

- Change of address notification
- Lost share certificates
- Dividend payment enquiries
- Dividend mandate instructions. Shareholders may have their dividends paid directly into their bank or building society accounts by completing a dividend mandate form. Tax vouchers are sent directly to shareholders' registered addresses.
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the Annual Report are invited to amalgamate their accounts on the share register.

Shareholders may check their shareholdings via the internet at www.computershare.com. To register to use the site shareholders will need their Shareholder Reference Number which can be found on their share certificate or recent dividend tax voucher. The website also includes information on recent trends in the Company's share price.

Shareholder Information

Analysis of Share Register at 31 December 2003

	No. of shareholders	% of total shares
Size of holdings:		
1–999	6,778	0.5
1,000–9,999	2,252	2.2
10,000–99,999	391	4.4
100,000–249,999	87	4.3
250,000–499,999	57	6.8
500,000–999,999	44	10.5
1,000,000 and over	63	71.3
	9,672	100.0

Types of shareholder:

Individuals	8,603	3.4
Banks and nominees	960	93.4
Investment and insurance companies	26	1.3
Other	83	1.9
	9,672	100.0

Telephone Share Dealing Service

A telephone share dealing service has been established with the Company's registrar, Computershare Investor Services PLC. The commission is 1%, subject to a minimum charge of £15. In addition stamp duty, currently 0.5%, is payable on purchases. The service is available from 8am to 4.30pm Monday to Friday, excluding bank holidays, on telephone number 0870 703 0084. Shareholders should have their Shareholder Reference Number (SRN) ready when making the call. The SRN appears on share certificates. A bank debit card will be required for purchases. Detailed terms and conditions are available on request by telephoning 0870 702 0000.

This is not a recommendation to buy, sell or hold shares in Meggitt PLC. Shareholders who are unsure of what action to take should contact a financial adviser authorised under the Financial Services and Markets Act 2000. Share values may go down as well as up which may result in a shareholder receiving less than he/she originally invested.

In so far as this statement constitutes a financial promotion for the share dealing service provided by Computershare Investor Services PLC it has been approved by Computershare Investor Services PLC for the purpose of Section 21 (2) (b) of the Financial Services and Markets Act 2000 only. Computershare Investor Services PLC is authorised and regulated by the Financial Services Authority. Where this has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as information only.

Company Information

Information on Meggitt PLC is available via the internet at www.meggitt.com

Five-Year Record

	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000
Turnover and profit					
Sales	402,441	403,840	435,084	386,023	346,455
Profit before taxation, exceptional items and amortisation of goodwill	75,517	70,312	72,438	66,126	49,121
Amortisation of goodwill	(20,185)	(18,111)	(18,261)	(16,293)	(7,803)
Exceptional items	(13,334)	(12,967)	2,728	6,335	1,544
Profit before taxation	41,998	39,234	56,905	56,168	42,862
Earnings and dividends					
Earnings per share	7.2p	6.3p	11.9p	12.6p	10.6p
Earnings per share – IIMR basis	18.3p	17.1p	17.4p	16.2p	13.2p
Dividends per ordinary share	7.50p	7.00p	6.80p	6.40p	5.66p
Capital					
Average capital employed	262,475	251,791	232,909	199,704	135,055
Return on average capital employed	16.0%	15.6%	24.4%	28.1%	31.7%
Gearing ratio					
Year end net cash/borrowing as a percentage of capital employed	52.5%	54.2%	60.7%	83.1%	118.6%

The five-year record shows the figures reported in each respective year and excludes the effects of subsequent acquisitions and disposals. The figures for 2001 have been restated for the effects of adopting FRS 19. It has not been practicable to restate earlier years with respect to this Financial Reporting Standard.

Advisors

Principal Clearing Bankers

HSBC Bank plc
Barclays Bank PLC

Merchant Bankers

N M Rothschild & Sons Limited

Auditors

PricewaterhouseCoopers LLP
Reading

Solicitors

Clifford Chance LLP

Brokers

Merrill Lynch International

Registrars

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Bristol BS99 7NH

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High voltage fibre optic towline

Fighter pilots don't like to leave home without our missile-countering towed decoys. As the radar payloads of these countermeasures draw fire away from the aircraft, their compact towlines—which also retrieve and receive electrical signals between the towing aircraft and towed vehicle—must also survive direct exposure to the jet engine's high temperature afterburner plume.

- > High voltage integrity: greater than 5000 volts, 6 conductors
- > Single mode fibre optic loss: less than 1.5 dB
- > Acceleration: 500g
- > Afterburner exposure: max afterburner
- > Overall diameter: 1.2 mm

Smart engineering for extreme environments.

