



MEGGITT

Annual Report & Accounts 2004

Smart engineering for extreme environments.

Front cover

High temperature inconel buffer air cooler

This heat exchanger will last the lifetime of an aero-engine—despite the temperature and pressure extremes thrust upon it when cooling the buffer air that protects the vital main bearing.

Instead of the usual aluminium, we make it from top grade inconel. This is as hard as a rock and very hard to work with—except for our craftsmen who can press and weld this corrosion and heat resistant nickel alloy to the tight tolerances needed. And the design is ingenious too. We used small-bore tubes rather than conventional plates to counter the thermal fatigue that comes from constant variations in pressure and temperature during the engine cycle.

Buffer air	Cooling air
> Operating pressure: 375 psia	32.4 psia
> Inlet temperature: 577°C	149.5°C
> Expected life: over 25 years	

Cool under pressure.

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Smart engineering for extreme environments

Meggitt's precision-engineered components and systems are highly diverse but have one thing in common. Without them, an entire system could fail. Because they can endure extremes—of temperature, impact, vibration and contamination, for example—they are repeatedly specified by engineers in the aerospace, defence, space, nuclear, power generation, transportation, medical and test engineering industries.

At one end of the spectrum, our sensors detect impending—and potentially catastrophic—mechanical failure. At the other, they provide vital data for life-sustaining heart pacemakers. Our fire barriers and seals provide critical safety margins in nuclear power plants and aircraft engine nacelles. Meggitt cockpit displays endure aerodynamic and gunfire vibration, gravitational forces and roll rates that test the limit of human endurance. Our crash recorders retain data after catastrophic impact and high temperature fires. Our latest aircraft braking system can absorb enough energy to stop the equivalent of 45 double-decker buses travelling together at 200 miles per hour in under 25 seconds.

Electronics are also integral to our engineering solutions. Meggitt products are smart, combining essential functionality with intelligence. This includes networked fire detection; predictive tools for active management of systems maintenance; cabling to transmit information and power in severe conditions; intelligent cockpit displays; threat simulation and real-time scoring; digital systems at the heart of the hydraulic interface; and smart sensors for aircraft testing.

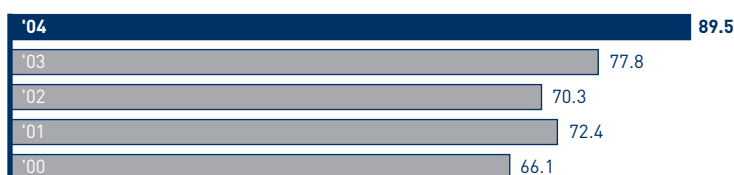
Robust, mechanically ingenious and rich with electronic content, our engineering solutions make good business sense too. By making our components and systems lighter, smaller, longer lasting and more efficient, we help customers meet the challenges inherent in modern aerospace: economics and environment, performance and safety. These provide the keys to much of our technology development.

Financial highlights

Meggitt is an international aerospace, defence and electronics group with a consistent record of strong financial performance. Meggitt's goal is to increase its presence in long term growth markets through proprietary product development reinforced by strategic acquisitions and investment in people and facilities. Meggitt's well-balanced portfolio offsets variation in demand from the market niches within which it operates.

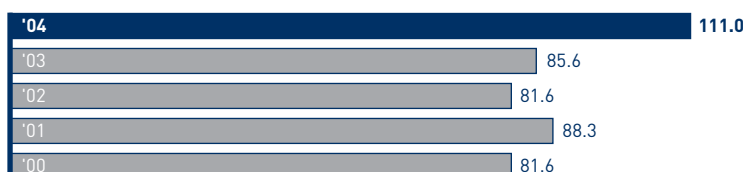
89.5

Profit before tax, exceptional items and goodwill amortisation (£ millions)



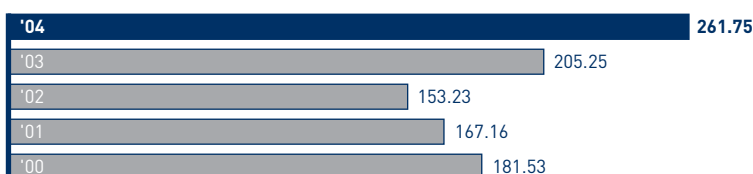
111.0

Operating cash flow before exceptional operating costs (£ millions)



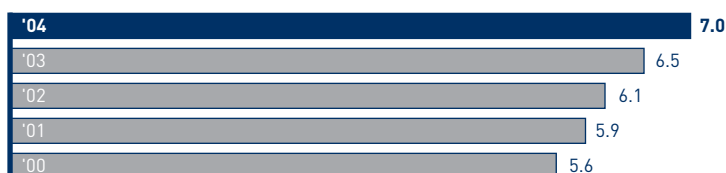
261.75

Year-end share price (adjusted for 2004 rights issue) (pence)

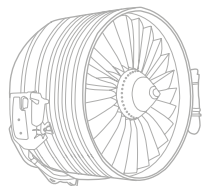


7.0p

Dividends per share (adjusted for 2004 rights issue) (pence)



Markets, products and systems

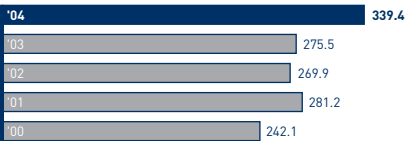


Aerospace

- Wheels, brakes and braking systems
- Micro-electronic sensor processors and displays
- Autopilots
- Engine interface and vibration monitoring systems
- Engine sensors and condition monitoring systems
- Air data computing and data acquisition products
- Thermal management systems
- Polymer seals and fire barriers
- Electro-thermal de-icing technology
- Fluid control systems
- Fire and smoke detection systems
- High performance cables

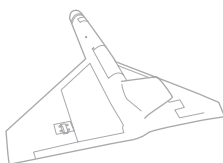
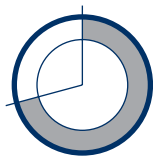
£339.4m

Turnover
(£ millions)



70.8%

Percentage
of group sales

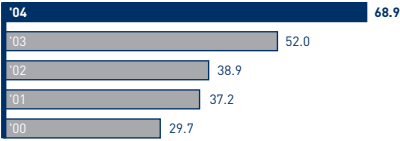


Defence Systems

- Aerial, land and marine targets, command and control systems, and field services for small and large arms training and systems development
- Aeromechanical launch and recovery systems for decoys and targets
- Electronic scoring systems and field services
- Ammunition handling systems
- Environmental control systems
- Countermeasures
- Fibre optic cable

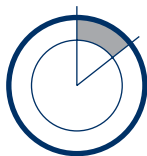
£68.9m

Turnover
(£ millions)



14.4%

Percentage
of group sales

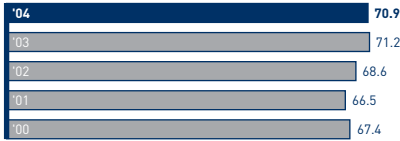


Electronics

- Piezo-electric transducers
- Silicon variable capacitance and piezo-resistive accelerometers and pressure transducers
- Laboratory and airborne test, signal conditioning and electronics
- Component and systems calibration
- Audio volume and tuning control
- Climate management and airflow distribution
- Equipment positioning and mode switching

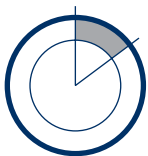
£70.9m

Turnover
(£ millions)



14.8%

Percentage
of group sales



Chairman's statement

The group has taken a major step in its development through the acquisition of Dunlop Aerospace. Coupled with the improving civil aerospace market and the continuing strength of our defence business, further strong growth has been achieved.

Another record year

Profits before tax, exceptional items and goodwill were up 15 per cent—another record year. Excluding the £11.2 million adverse currency impact following the further weakening of the US dollar, underlying profits were up by a notable 29 per cent. Since cash generation was again impressive with an operating cash flow before exceptional operating costs of £111.0 million, the board is proposing an 8 per cent increase in the final dividend to 4.8 pence.

Largest acquisition

The most important corporate event of the year was the acquisition of Dunlop Aerospace. This was Meggitt's largest ever acquisition, increasing our presence in the aerospace market significantly. Following the related rights issue and the subsequent strong growth in the share price, the group is capitalised at over £1 billion.

Meggitt also bought Wilcoxon Research, a manufacturer of sensors, which will enhance the group's electronics division and Schreiner, an aerial targets manufacturer located in

Canada, which will grow the group's defence systems division. An actuator product line was bought from Eaton Aerospace which complements the existing business established recently by Meggitt Safety Systems. The contribution from 2003's acquisitions has also been strong: Meggitt Western Design, Meggitt Aerodynamics and Meggitt Defense Systems Caswell have proved excellent companies.

Aerospace looks up

The outlook for 2005 looks very encouraging for Meggitt. The market for new large civil aircraft, as evidenced by Boeing and Airbus delivery forecasts, will recover strongly in the next two years. Civil aircraft traffic continues to increase which benefits our spares and repairs activity. The outlook for military expenditure, particularly in the USA, remains buoyant. This provides a solid base for further improvement in the group's business.

Board changes

At the annual general meeting in May, Mike Stacey decided to stand down as non-executive chairman and resigned from the board. Mike joined a very different Meggitt in 1990 and played a major part in the changes that have created today's highly successful, focused group. I wish him a long and enjoyable retirement.

Since then, to comply with corporate governance best practice and ensure an appropriate balance between executive and non-executive directors, John Stobie and Dr Richard Greaves agreed to stand down from the Meggitt PLC board with effect from 1st March, 2005. John and Richard will remain senior members of the management board and continue to play key roles in the group in future.

Outstanding employees

Our success is, of course, utterly dependent on the skills and application of our employees. Their support in a year of massive change and development has been outstanding and essential to our growth and excellent shareholder returns. I must conclude by extending my thanks and congratulations to them all.



Sir Colin Terry
Chairman





Avionics and gearbox cooling

The V-22 Osprey, the world's first production tilt rotor, carries 24 combat personnel or up to 20,000 pounds of internal or external cargo at long range — at twice the speed of a helicopter.

From combat search and rescue to fleet logistics and special warfare support, mission success for this highly advanced machine depends on components as reliable as they are technically ingenious.

Our cooling products contribute to the efficient and fault-free operation of key systems such as the avionics and gearbox from day to day—or when trouble strikes. That's when our standby lube pump kicks in to provide around 30 minutes' critical flight time should the primary pump fail.

Maximising safety. Minimising mission risk.

Strategy

Our objective is to increase total shareholder return across the business cycle at above average rates.

We achieve this by operating in markets with high barriers to entry requiring the highly-engineered, highly specialised products that characterise Meggitt's design and manufacturing capabilities.

Consistent aftermarket revenues

We achieve this by operating in markets which deliver consistent aftermarket revenues over the long term. The majority of our products are certified by regulatory authorities for complex, critical systems and require sophisticated test and calibration procedures. This, combined with ownership of the intellectual property in these designs, means we are uniquely positioned to support these products over their service life.

That is why our primary markets are in aerospace and defence. We also leverage the value of key capabilities such as mission critical measurement, fluid control and machinery condition diagnostics in the nuclear, medical, land-based power generation, automotive and transportation sectors.

Balancing our portfolio

Consistent shareholder returns also come from the way we balance our portfolio over the business cycle, offsetting variation in demand from the markets within which we operate. We aim to achieve around 60 per cent of sales to original equipment manufacturers and 40 per cent to the aftermarket; an even split between civil and military sales at around 40 per cent each; and the remainder dedicated to non-aerospace sales.

Continual investment in capital projects delivers state-of-the-art facilities; and an annual spend of around 8 per cent of sales delivers products representing intellectual property that keeps us at the forefront of technology in our chosen markets.

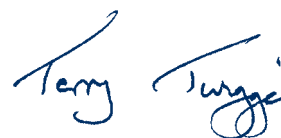
Organic growth and selective acquisitions

Organic growth is complemented by selective acquisitions, which reinforce and extend our core competencies and market positions. The acquisition of Dunlop Aerospace, our biggest to date, boosted the group's capacity and product range dramatically.

Naturally, we ensure our organisational structure keeps pace with business growth. We continue to strengthen our relationships with customers at the highest levels so they can draw widely on what the group as a whole has to offer—from convenient procurement to engineering solutions.

All this has been and will continue to be underpinned by tight financial control.

These strategy fundamentals, which address the needs of the customers who matter now and in future, remain the keys to sustaining the returns which we have delivered over many years.



Terry Twigger

Chief Executive



Group strategy

To increase shareholder value by providing technically superior products in aerospace and defence, and specialist sensors across the high technology spectrum.

Strategic objectives

Develop significant niche positions in selected markets

Compete by developing and acquiring intellectual property

Grow by selective acquisition

Maintain a culture of strong performance

Strengthen customer relationships

Become a more strategically-managed, interrelated group

Business unit implementation

Identify and leverage core competencies

Define market and technology opportunities

Exploit existing intellectual property in related markets

Select and quantify strategic R&D investments

Evolve organisation to support change and continuous improvement

Drive performance and rectify deficiencies

Promote synergies across the group

Seek out bolt-on acquisitions and alliances to complement or extend niche market positions

Market review

From engine condition monitoring to wheels and braking systems, flight deck instrumentation to flight test sensors, countermeasures to target simulation, fire detection to ice protection, and thermal management systems to ammunition handling equipment, Meggitt's sales derive primarily from aerospace and defence.

The group enjoys a well-diversified portfolio. This is balanced between civil and military customers, between the manufacture of original equipment and aftermarket products and services, and between new and mature aircraft programmes.

In 2004, this position was reinforced by the timely acquisition of Dunlop Aerospace. This increased our civil OEM (original equipment manufacturer) and aftermarket sales—now almost as strong as those of the group's defence systems business—and positions us to capitalise on growth in the recovering civil aerospace market.

Beyond aerospace, Meggitt's extreme environment engineering products for land-based industrial gas turbines, and diverse applications in defence, automotive and medical applications for the group's electronic sensors products, play their role in a strategy designed to protect shareholders from the effects of demand changes in individual markets.

With defence budgets on the rise in the United States, with the civil aerospace sector showing signs of recovery, and with demand for electronic sensors expected to continue growing from a broad range of high technology markets, Meggitt is positioned for continuing growth in 2005.

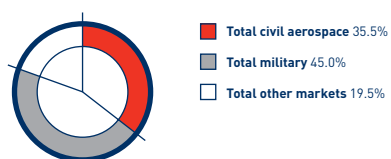
Stryker mobile gun replenisher

Continuous firing capacity is fundamental to combat success. It helps if soldiers are free to keep the mission in their sights rather than the breach of a gun. That means machines to line up and load ammunition.

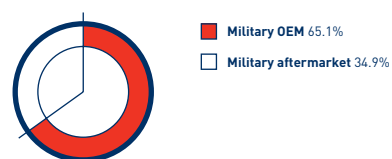
Our replenisher, developed for the mobile gun in Stryker, a US Army rapid response armoured vehicle, loads a 50lb, 105 mm shell with surgical precision—every ten seconds.

Ammunition handling systems soldiers can rely on.

Sales by primary market segment: 2004

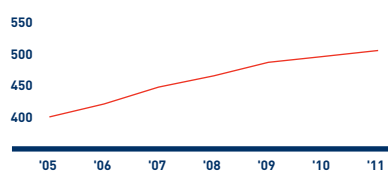


Analysis of military: 2004

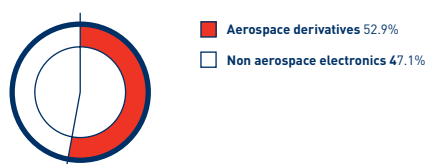


Projected US defence spending (USD bn)

Source: Teal Group August 2004



Analysis of other markets: 2004



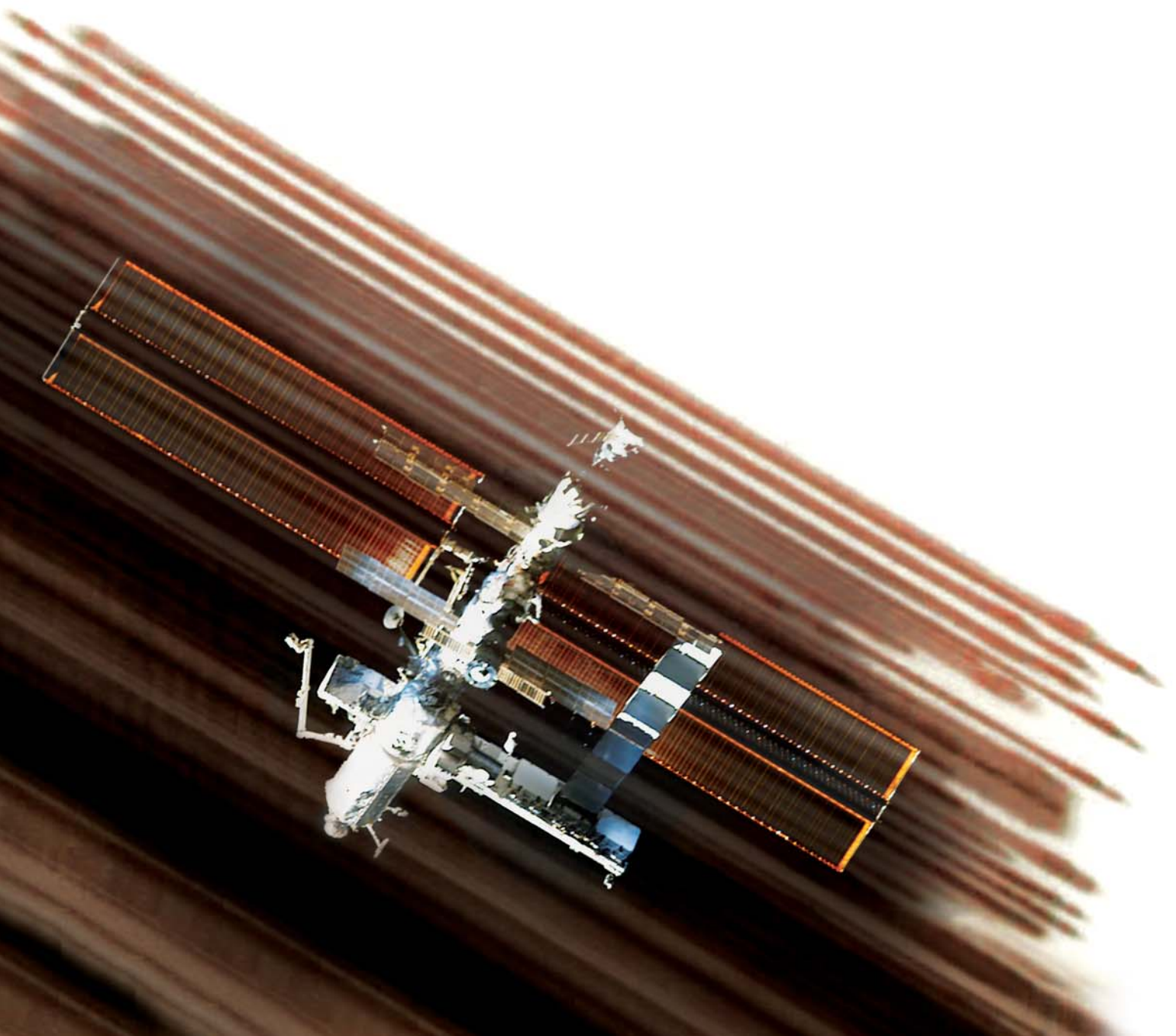
High resolution proximity sensor

Our high resolution proximity sensor, designed to scan and position space mechanisms and robotics, will function for around 15 years. But there is more to this sensor than long life. And there is more to measurement—its primary function—than meets the eye.

After five years' development, this sensor's astonishing resolution means that measurements can be taken and movements made to within a nanometre—about the length of a hair after a clean shave. That is why it has been chosen by the International Space Station to bring precision to the environment in which important scientific experiments must be conducted.

- > Resolution: < 1 nanometre in 1 mm range, < 10 nm in 9 mm range
- > Sensitivity to temperature: below 100 parts per million per °C
- > Operational provision sensor head: -150°C to + 85°C for missions to Mars
- > Reliability: 2.5 million hours mean time between failure
- > High radiation survivability: sensor 5×10^4 Rad
- > Sensor head power consumption: below 15 mW

With precision. Without fail.



Military

At 45 per cent, military is the largest of Meggitt's sales segments. The US, accounting for 40% of global defence spending, is a primary military market for Meggitt. Growth in this key market is expected to continue, with President Bush requesting a 4.8 per cent increase in the Department of Defense budget from USD 400 billion in the fiscal year 2005 to USD 419 billion in 2006, and to USD 502 billion in 2011. These figures exclude supplementary appropriations such as those for the current conflicts in Iraq and Afghanistan.

On the ground

Meggitt is well placed to expand US military sales, especially in ammunition handling and environmental control systems for ground vehicles such as the Stryker family of wheeled, rapid response armoured vehicles.

In the air

Meggitt companies support major new combat aircraft programmes such as Eurofighter—a second tranche of 236 production aircraft was approved in December 2004—and the F-35 Joint Strike Fighter. The F-35's first flight is expected in 2006 and service entry is planned for around 2009. Production should exceed 3,000 aircraft.

The military aftermarket is also a significant contributor to group sales. Given that the life of a military aircraft can extend to half a century—sometimes longer—this provides us with a steady recurring income from spares and repairs and retrofit programmes.

Training

Total annual global expenditure on military training is approximately USD 50 billion. The US accounts for about 40 per cent and spending is expected to rise for the foreseeable future. This enhances the prospects for Meggitt's target simulation systems and training programmes.

Civil

Civil aerospace generates 35.5 per cent of Meggitt's total sales, split almost equally between sales to OEMs and the aftermarket. Meggitt products are on virtually every aircraft flying today including the Boeing 737, 747, 757, 767 and 777, Airbus A300, A320 family, A330, A340 and the Gulfstream IV and V. The acquisition of Dunlop Aerospace extended the scope and scale of Meggitt's involvement in such programmes.

OEM

The year 2004 appears to have been a turning point in the civil aerospace cycle and, therefore, the OEM market. Leading indicators are positive. In 2004, revenue passenger miles, for example, exceeded pre-September 11, 2001 levels. There is a strong correlation between this measure of passenger demand and demand for new aircraft over the longer term. Around 40 per cent of Meggitt's OEM sales are to the large jet market. Over the next 20 years, Airbus and Boeing expect passenger traffic to increase by a factor of over two and a half. Airbus forecasts indicate that cargo traffic will more than triple in the same period. Boeing believes passenger demand will be primarily for point-to-point services, favouring aircraft such as its 787. Airbus believes in the strength of demand for inter-city trunk routes, suitable for the A380. Meggitt is supplying equipment for both programmes.

Around 40 per cent of Meggitt's OEM sales are to the business jet and general aviation markets. The General Aviation Manufacturers' Association reports that business jet deliveries in 2004 were 14 per cent higher than in 2003. Deliveries of turboprop aircraft rose by 18 per cent and deliveries of piston engine aircraft by 8 per cent.

Our presence in the regional jet market, which amounts to around 15 per cent of OEM sales, will increase with new platform wins such as China's ARJ21 and Russia's RRJ.

Aftermarket

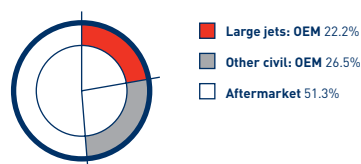
The aftermarket represents over half Meggitt's civil aerospace sales, driven primarily by the number of active aircraft. By 2025, the world fleet is expected to grow by 115 per cent, providing a growing base for Meggitt's aftermarket. Available seat miles, a measure of aircraft usage that correlates strongly with the demand for spares and repairs, are rising. Passenger traffic also recovered strongly in 2004, with figures from the International Air Transport Association (IATA) showing the highest increase in passengers in recent years. IATA expects continued growth.

Other markets

Around 19.5 per cent of Meggitt's sales lie beyond aerospace and defence in a range of high technology markets, including electronic sensors applications for demanding environments. Meggitt is particularly active in the medical market, boosted by healthcare providers aiming to reduce costs and improve the performance of treatments by incorporating sensor technology into equipment such as catheters and probes.

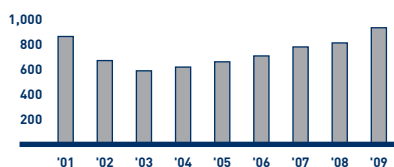
Meggitt's sensors are also found in the automobile safety and comfort market which continues to grow as legislators and consumers demand greater performance from car makers; in condition monitoring, where expansion is driven by the need to reduce the cost of maintaining and operating heavy machinery; and dynamic testing, demand for which is driven by the research and development activity generated by an active economy.

Analysis of civil aerospace: 2004



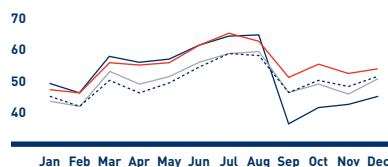
Forecast large jet deliveries

Source: Teal Group, August 2004



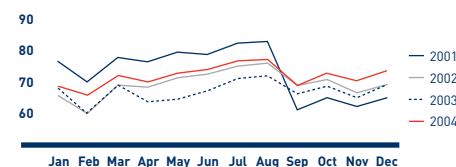
Revenue passenger miles ('000)

Source: Air Traffic Association - Monthly Traffic Report December 2004



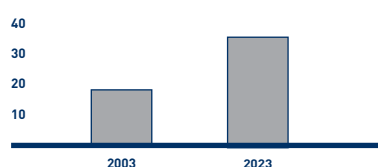
Available seat miles ('000)

Source: Air Traffic Association - Monthly Traffic Report December 2004



World aircraft fleet ('000)

Source: Boeing Current Market Outlook 2004



Chief Executive's Operating Review

2004 was another record year, with strong underlying organic growth at constant exchange rates and excellent performance from recent acquisitions.

Results

Group profit before tax, exceptional items and goodwill amortisation increased by 15% to £89.5 million on turnover up 19% to £479.2 million, leading to a final dividend of 4.80 pence. These results further reinforce the group's reputation for consistent cash generative performance.

Acquisitions

In 2004, acquisitions strengthened Meggitt's key capabilities and market position. The purchase of the design and manufacturing division of Dunlop Standard Aerospace Group (Dunlop Aerospace) for £426.8 million was completed in August. Since then, this business has performed well and the integration process is on schedule. Dunlop's wheels, brakes, polymers, and aero-engine related components fit closely with Meggitt's other businesses.

Three further acquisitions were completed in December 2004 for £14.3 million. Wilcoxon Research, whose products range from rugged, low-cost industrial vibration sensors to unique laboratory and test instrumentation, joined Meggitt Electronics. Eaton Aerospace's flight-lock actuator business, which makes door locking devices for Boeing aircraft, was integrated into Meggitt's Aerospace business. Schreiner Canada, which provides air, ground and sea targets for defence training, forms part of Meggitt Defence Systems. This will further strengthen its market position in targetry.

Aerospace

Turnover increased 23% to £339.4 million (2003: £275.5 million). Operating profit before exceptional costs and goodwill amortisation increased by 19% to £77.3 million (2003: £65.1 million). At constant exchange rates, both turnover and operating profit increased by 32%.

Meggitt's position as a world leader in the field of aerospace engine condition monitoring has continued to be enhanced.

The Engine Monitoring Unit on the Trent 900 engine for use on the new Airbus A380 aircraft was certified. This unit is the first of its kind and is designed to help optimise engine maintenance. In addition, the initial production orders for the electronics monitoring part of the engine mounted Vibration Monitoring Unit (VMU) for the GP7200 Alliance engine, also to be used on the Airbus A380, were received.

Building on this success, Meggitt has been selected to supply engine mounted VMUs on the General Electric GENx engine.

Contracts have been signed for the Chinese regional jet (ARJ21) engine VMU and Interface Control Unit. This positions Meggitt firmly in the emerging Chinese civil aircraft market and complements last year's award to supply the engine monitoring system on the Russian regional jet.

Initial orders have been received for the retrofit of our new advanced engine VMU for the Boeing 737 aircraft where there is a substantial retrofit market in excess of 1,000 aircraft. The main additional benefit of this system is to give advanced warning of bearing degradation which can lead to engine shut downs.

In addition, contracts with Airbus have been received for the development and production of an Advanced Engine Interface and VMU to be fitted on CFM-56 powered A340 aircraft. This unit also enhances the currently installed product by providing further CFMI-developed advanced engine algorithms for early detection of No 4 bearing degradation. The unit will be standard fit on new aircraft and be available for retrofit onto the existing fleet of over 250 CFM-56 powered A340 aircraft.

Orders have also been received from the United States Army to provide oil debris monitoring system products for the AH-64A and AH-64D Apache helicopters. These fluid monitoring products will improve the mission effectiveness and availability of the Apache.

The Avionics business continued to win new orders for secondary flight display systems for the update of Royal Australian Air Force PC-9 trainers and for a wide range of equipment for the supply of BAE Systems Hawk trainers to India. It was selected to supply the threat warning indicators for F-16 aircraft destined for Poland, which is the first order for this product range. In addition, it should receive orders in excess of £35m in the first half of the year for the second tranche of Eurofighter aircraft.

A major contract was received for the supply of the environmental cooling system for the Boeing C130 Avionics Modernisation Programme (AMP). As a consequence of continued investment in engineering resources, 16 new valve programme orders in the aerospace market and 6 programmes in the industrial power generation market were won in 2004. It is anticipated that these new programmes will be worth in excess of £100m over their life. Airdynamics also secured orders for fan products for the V-22 Osprey and Joint Strike Fighter which are expected to be worth in the order of £24m over the next ten years.

Building on its success on the A380 aircraft, Safety Systems was selected to provide engine and landing gear fire protection for the new Airbus military A400M cargo aircraft. This will have its first flight in 2008 with deliveries scheduled for 2009 and is estimated to be valued at £30m over the life of the programme. The flight-lock actuator business acquired from Eaton Aerospace in December 2004 has already been integrated successfully into the Safety Systems facility in California, USA. Deliveries of this product range commenced in January 2005.

Further contracts were received from Eclipse Aviation to provide the engine inlet anti-ice and engine bleed ducting system for the new Eclipse 500 jet. Low rate initial production is expected to commence in the second half of 2006. This order, together with the already announced autopilot order, means that even at half of Eclipse's projected volumes these contracts are potentially worth in excess of £110m over the next ten years.

The polymers business in the USA received the prestigious "Platinum Source Preferred Supplier Award" from Northrop Grumman. The award criteria included outstanding performance on delivery, quality and cost.

The Dunlop Aerospace companies acquired in August 2004 contributed £49.0m to turnover and £10.9m of operating profit (before £4.2m of exceptional operating costs). The Dunlop businesses include Polymers & Composites and Fluid Dynamics products. Work is underway to integrate these businesses into Meggitt and in the first half of 2005, Meggitt's existing UK polymers business will move to Dunlop facilities.

Silicon dioxide cable

Conventional organic cable cannot withstand the intense heat generated by advancing aerospace technologies. Based on power and signal transmission technology from the military and nuclear sectors, our silicon dioxide cable has the flexibility, low weight and structural integrity to withstand current and future temperature and vibration extremes.

Today, this high speed, high temperature cable is preventing engine wire harness failures on military jets and replacing the organic wiring in the Boeing 737 NG's fire detection systems, enhancing reliability and reducing operating cost.

- > Extreme temperature range: -271°C to 1149°C
- > Vibration resistance: 45g on earth and 110g in space
- > Weight: 30 per cent lighter than the norm
- > Strength: survives a concentrated load of 500lbs
- > Life span: 40 years (12 months is the norm)

Revolutionising information and power transmission.



During 2004, the Fluid Dynamics businesses were successful in securing a number of new orders which included supplying two heat exchangers to Pratt & Whitney Canada for the PW610 turbofan engine that powers the Eclipse very light jet and a heat exchanger for another PW600 engine family model – the PW615 on the Cessna Mustang. Other heat exchanger contracts received were for the GENx engine that will go on the Boeing 787 Dreamliner and the SM146 engine designed for the Russian regional jet.

The Braking Systems business is a major workshare partner with Honeywell on the wheels and braking systems for the A380 aircraft. The main wheel and brake technical service order testing for the conventional wheel and brake was completed during 2004. This clears the way for flight testing on the aircraft in 2005. In addition, parallel development work on the use of metal matrix composite material which offers substantial weight benefits for the wheels is ongoing. Braking Systems also supplies the wheels, braking system and landing gear computer for the Eurofighter and the announcement of orders for the second tranche of Eurofighter aircraft underpins the importance of this programme with £30m of orders expected in the first half of 2005.

The benefits from the actions taken to integrate Dunlop Aerospace into Meggitt will deliver annualised savings of £7m in 2005 and £10m in 2006. The cost of achieving these savings is approximately £9m (£4m in 2004 and £5m in 2005). This is in line with our expectations at the time of the acquisition.

Defence Systems

Turnover increased 33% to £68.9 million (2003: £52.0 million). Operating profit before goodwill amortisation increased by 27% to £12.2m (2003: £9.6m). At constant exchange rates the turnover increase was 46% driven by acquisitions and the operating profit increase was 40%.

In weapon training systems, Meggitt Defence Systems secured two new orders for the 'Banshee', from Finland and the French Navy. The Banshee is now in service with 42 countries worldwide. The UK MoD also extended the Banshee services contract for a further two years until 2007. The acquisition of Schreiner further underpins Meggitt's position in the worldwide targets market.

In ammunition handling, multiple development and production system contracts were secured in 2004. These included the large calibre autoloader for Future Combat Systems, 120mm mortar for the US Army, next generation 30mm ammunition system for the C130 gunship, and the ammunition handling system for the Stryker light armoured vehicle. In thermal cooling systems orders were received for environmental control system pods for the rapid airborne mine detection and clearance system. These development contracts will lead to significant production contracts over the next five years in excess of £30m.

Countermeasures production activity declined as expected in 2004 but substantial progress was made in the development of the next generation of systems. This included a development contract from the USAF for a compact Reel Out/Reel In (RORI) magazine for fibre optic towed decoys. The RORI magazine will allow recovery of the expensive towed decoy significantly reducing the cost of ownership of these systems.

Electronics

Turnover from continuing operations was £70.9 million (2003: £71.2 million). Operating profit before exceptional operating costs and goodwill amortisation from continuing operations reduced by £0.3m to £11.1m (2003: £11.4m). At constant exchange rates, turnover was up 10% and operating profit 16%.

The continued commitment to new product introduction has ensured that a number of new programme orders have been secured. These include sensors for the NASA space shuttle, sensors for Lockheed for the Joint Strike Fighter aircraft flight testing, and cables and retrofit kits for GE industrial power products. Progress also continues in the high volume lower price market with a number of successes in the automotive market including orders from Behr Hella, Preh, TRW and Eaton.

The acquisition of Wilcoxon will provide a complementary range of products, and enhance further Meggitt Electronics' existing core competencies in sensor design and applications, opening up synergistic opportunities in research and development and market development. In addition, the use of Meggitt's existing distribution network should further increase Wilcoxon's exposure to the market place.

In the second half of 2004, Meggitt Electronics completed the development of its manufacturing facility in Xiamen, China. It was opened formally in October and in December, the facility passed its ISO9001-2000 and ISO-14001 certification audits after just 7 months in operation. With the project progressing well, the closure of the TTI facility in the US Virgin Islands is planned to be finalised by the end of the first half.

Outlook

The markets we operate in continue to improve although the effects of the weak dollar are expected to continue to influence our reported performance in 2005. Both Boeing and Airbus are projecting significant increases in large civil jet deliveries in 2005 and 2006 compared with the low point of the cycle of 2003/2004 and deliveries of new aircraft in the business and general aviation segments continue to recover although the picture for regional aircraft is muted.

The market for civil spares and repairs continues to grow in line with the increasing utilisation of aircraft. Military equipment sales are predicted to remain firm in 2005. The effect of any slow down in future defence expenditure on new platforms will be mitigated by Meggitt's strong position on existing platforms and the subsequent demand for spares and repairs. The acquisitions made in the second half of 2004 are performing well and the benefits from the opening of our facility in China will start to impact positively in 2005.

The order book at the end of December 2004 is up 9% over December 2003, at constant exchange rates when including the 2004 acquisitions in both years.

The group is therefore on track to deliver another strong year of sustained growth in 2005 and, as a consequence, the directors are recommending an increase in the final dividend of 8%.

Threat warning indicator (TWI)

Pilots just don't need the extra stress of sensory overload in combat conditions. That's why our warning displays are as tough as old boots but sophisticated enough to deliver data on threat lethality, position and direction that is easy to assimilate. They're a far cry from old-fashioned glass cathode ray tubes—heavy, power hungry and mostly limited to monochrome symbology.

Like all our displays, it is compact, yet information-rich, as readable using night vision technology as it is in bright sunlight. Its high resolution brings particular clarity to the complex symbols often customised for operational flexibility and security. And with low maintenance matching low power consumption, the TWI takes the headache out of logistics and spares management—about a 40:1 improvement on current figures.

TWI in 100 aircraft, flying 200 hours per year

- > Without Meggitt: 250 hours mean time between failure:
80 unscheduled removals
- > With Meggitt: 10,500 hours mean time between failure:
two unscheduled removals

Intelligent reading for pilots. Intelligent design for maintenance crews.



Financial Review

2004 has been a transforming year for Meggitt. The Dunlop Aerospace acquisition, a strong performance from our established businesses, the continuing recovery in civil aerospace markets and rise in defence spending, all provide a platform for sustained growth.

Together with the impact of recent acquisitions, this enabled the group to grow underlying turnover and profit by more than enough to compensate for the significant impact of a weakening US dollar (£12.1 million negative impact on operating profit growth) and the initial cost of setting up a manufacturing facility in China (£3.7million). We also continued our record of converting profit into cash, providing confidence in earnings quality today and investment for future growth. In 2004, cash flow from operating activities was an impressive 110% (2003: 99%) of operating profit before goodwill amortisation and exceptional costs.

Operating performance in the year

The continued decline of the US dollar had a negative impact on results. First, the impressive growth in our US businesses' dollar profits was reduced when translated into sterling. Second, our European operations' dollar sales converted to less local currency. We do not hedge the translation exposure, which is not a cash cost, but we do hedge the transactional exposure, which is. The table below shows the effective dollar rates used to translate overseas profits and the hedged rate at which transactions were converted.

Effective \$:£ rate	2004	2003
Translation rate	1.81	1.63
Transaction rate (hedged)	1.69	1.51

This movement in exchange rates held back growth in our reported sterling turnover and operating profit (before goodwill amortisation and exceptional costs) by £38.9 million and £12.1 million respectively.

Turnover from continuing operations increased by 20% to £479.2 million (2003: £398.8 million). This included growth in constant currency of £119.3 million or 30%, of which £92.4 million came from 2003 and 2004 acquisitions, offset by the negative impact of £38.9 million from currency movements.

Operating margins at constant currency improved from 21.4% to 21.8%. Operating profit before exceptional operating costs and goodwill amortisation improved by £14.6 million to £100.6 million. This included an increase in constant currency of £26.7 million (31%), including £18.7 million from 2003 and 2004 acquisitions, offset by the £12.1 million negative impact of currency movements.

The exceptional operating costs of £7.9 million (2003: nil) relate to realising overhead efficiencies in Dunlop, the planned relocation of existing polymers and composites capacity to Dunlop facilities in the Midlands (£4.2 million), and China start-up costs (£3.7 million). These actions will yield significant savings from 2005. Net interest costs were £11.1 million (2003: £8.2 million), of which £4.7 million relates to interest on the additional debt acquired for the Dunlop Aerospace acquisition.

This leaves profit before taxation, goodwill amortisation and exceptional items up 15% to £89.5 million (2003: £77.8 million), including a £10.6 million contribution from 2003 and 2004 acquisitions. At constant exchange rates, the increase was £22.9 million or 29%.

On a statutory basis, profit before tax is up 28% to £56.6 million (2003: £44.3 million). The sustainable effective tax rate for the group was reduced by 1% to 27% (2003: 28%). Fully diluted earnings per share increased 36% to 9.1 pence (2003: 6.7 pence). IIMR EPS reduced by 6% to 15.4 pence (2003: 16.4 pence) due to the initial costs of restructuring Dunlop Aerospace and China start-up costs.

Cash flows and current liquidity

The group maintained its strong track record of cash generation, converting 110% (2003: 99%) of operating profit before goodwill amortisation and exceptional costs into cash flow from operating activities before exceptional costs.

Net cash inflow before acquisitions was £45.6 million (2003: £38.9 million). We spent £441 million on acquisitions, buying Dunlop Aerospace for £427 million of which £247 million was the cash element (with the balance funded by a rights issue). In December, we acquired Wilcoxon Research, Schreiner Canada and an actuator product line from Eaton Aerospace for a total combined consideration of £14.3 million. As a result, group net indebtedness increased from £140.5 million to £328.2 million with interest cover of 8.3 times (2003: 10.5 times). Gearing by end-December increased to 71% (December 2003: 52%).

Taxation

New tax credits and tax-efficient structuring of acquisitions enabled us to reduce 2004's underlying tax rate to 27% (2003: 28%), resulting in a tax charge of £22.0 million (2003: £21.9 million).

Tax paid in 2004 of £18.6 million (2003: £12.7 million) is lower than the profit and loss account charge, largely due to refunds from prior years and timing differences.

Returns to shareholders

The share price on 31 December, 2004 was 261.75p (adjusted 2003: 205.25p), an increase of 28%. The recommended final dividend of 4.8p per share gives a full year dividend of 7.0p (adjusted 2003: 6.53p), an increase of 7%.

Investment for the future

In addition to acquisitions and the manufacturing plant in China, the group made other forward-looking investment in 2004. Capital expenditure was £14.2 million (2003: £10.3 million) and company-funded research and development spend £27.7 million (2003: £20.0 million).

Capital structure and treasury policy

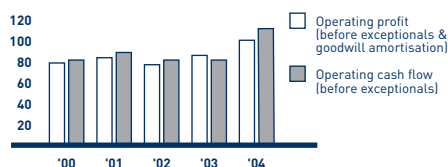
Meggitt's operations are financed by a combination of equity (share capital and retained earnings) and debt. We seek to minimise the cost of capital while recognising the constraints of the debt and equity markets and the risks associated with high levels of gearing. Our current post-tax average cost of capital is just below 8%.

To fund the Dunlop Aerospace acquisition, we successfully completed a three-for-seven rights issue in August, raising £180.4 million net of costs. We also replaced our existing committed bank facilities with a new USD 680 million, five-year multi-currency revolving credit facility while retaining the USD 250 million US private placement originally completed in June 2003. As a result, we had net undrawn committed banking facilities of £135 million at the end of 2004. These facilities' weighted average life was 5.7 years.

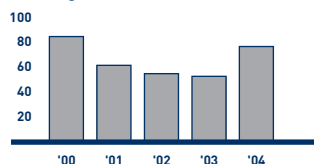
To increase protection against interest rate movements, the group fixed an additional £35 million of sterling borrowings for three years. As a result, the percentage of our net debt at fixed rates was 31% and the weighted average period 6.5 years on 31 December 2004. Both exceed our treasury policy minimum criteria of 25% and two years respectively.

Interest cover of 8.3 times (2003: 10.5 times) compared to a covenant requirement of greater than 3.5 times and net debt to EBITDA of 2.5 times (adjusted for covenant calculation purposes) compared with a requirement of less than 3.5 times.

Operating profit (before exceptional costs and goodwill amortisation) and cash flow from operations



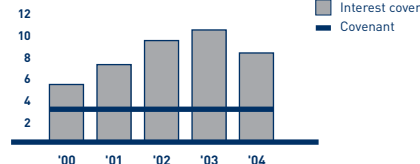
Gearing %



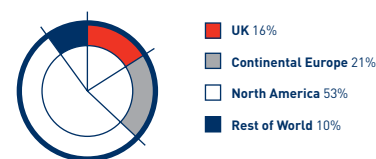
Currency profile of net debt (£m)

	2004	2003
Sterling	115.7	[22.8]
US dollar	201.3	141.2
Euro	(3.2)	(3.2)
Swiss franc	16.0	25.7
Other	(1.6)	(0.4)
Total net debt	328.2	140.5

Interest cover



Turnover by geographical destination



Our policy on transactional currency exposure is to hedge known, and some anticipated, exposures based on historical experience and projections. The group must hedge at least 70% of the next 12 months' anticipated exposure and can hedge up to five years ahead. Current hedging is around 12 months' cover. The currency translation exposure represented by overseas net assets is reduced by holding our borrowings in currency.

Pensions

Meggitt has one closed (Dunlop) and two active defined benefit schemes in the UK and two closed defined benefit schemes in the US (from 1999's acquisition of Whittaker Corporation). The last UK actuarial valuations in 2004 showed deficits in both UK and US schemes. Before 2004's triennial valuation, we increased contributions in 2003 to the active UK schemes for accrued service and made a £2.0 million payment to reduce the expected deficit arising from the decline in equity values since 2001. This was sustained throughout 2004. Because of improved equity markets and additional cash contributions, the estimated SSAP24 deficit for all schemes at the end of the year fell to circa £16.2 million after tax (2003: £22.0 million) after adding Dunlop's deficit of £6.7 million. On an FRS 17 basis, those schemes showed a deficit after tax of circa £51.3 million (2003: £48.4 million), again after adding Dunlop's deficit of £11.2 million. If FRS 17 had been adopted, the profit and loss charge in 2004 would decrease by £1.3 million over the 2004 actual SSAP 24 charge in the accounts.

Accounting and financial reporting standards

In 2004, Meggitt adopted Dunlop's accounting policy for development expenditure, which is consistent with International Accounting Standards requirements to be adopted by UK listed companies in 2005. This change in accounting policy requires prior years to be restated. The net effect is that some development expenditure is now capitalised and amortised. The change increased reported profit in 2004 by £3.4m (restated 2003: £2.3 million).

We will implement International Accounting Standards in 2005 with a corresponding restatement of 2004. The first results under the new standards will be the 2005 Interims, which will quantify the impact of those having a significant effect on Meggitt. These are principally: IAS12 (Income Taxes), IAS19 (Employee Benefits), IAS32 and 39 (Financial Instruments), IFRS2 (Share Based Payment) and IFRS3 (Business Combinations).

Stephen Young

Stephen Young
Group Finance Director



Focus on Dunlop Aerospace

Buying Dunlop Aerospace in 2004 expanded the scope and scale of Meggitt's operations and boosted its position as a major supplier of products and systems to leading aerospace groups in the United States and Europe.

Like Meggitt, Dunlop specialises in smart engineering for extreme environments. Like Meggitt, Dunlop's products and systems are specified on major aircraft programmes. By integrating our highly complementary technologies, we will advance our products and systems substantially, reinforced by superior service arising from the combined power of two substantial aftermarket organisations.



More customers

Dunlop Aerospace, headquartered in Coventry, United Kingdom, precision-engineers wheels, brakes and braking systems, heat exchangers, oil separators, valves and high performance polymer seals. Around 1,200 customers worldwide encompass a mix of engine makers, regional, business and commercial aircraft manufacturers, airline operators and government organisations. They include Airbus, ATR, BAE Systems, Boeing, EADS, Gulfstream, Raytheon, Rolls-Royce, General Electric, Snecma, Pratt & Whitney and the UK and US defence ministries.

Recurring product sales and repair work is substantial. Dunlop braking products alone are specified on around 19,000 wheel and brake assemblies on over 30 different aircraft types. Meggitt already has a substantial repair, overhaul and aftermarket organisation which, combined with Dunlop's supply and logistics operations in Europe and Asia, will bring new reach and power to our services for airlines.

More products and systems

Dunlop's heat exchangers and control valves will boost Meggitt's growing capability in thermal management and fluid control, enabling us to work with a wider group of customers who want more products from fewer suppliers.

The polymers and composites businesses, which involve precision-engineered seals for engines and airframes, are merging with a similar Meggitt operation in the UK, creating significant economies of scale and streamlining procurement for common customers.

Dunlop's braking systems constitute a new capability for Meggitt. This type of extreme environment technology characterises the majority of Meggitt's established businesses.

Dunlop has an excellent track record in high performance brakes, anti-skid brake control systems and wheels on business jets such as the Gulfstream G550, advanced large jets like the Airbus A380 and modern military jets including the Joint Strike Fighter.

More value

Meggitt's sales have leapt 19 per cent to £479 million and the workforce from 3,664 to 5,632 across 39 locations worldwide. Our revenue and profit base has been spread more widely through Dunlop's UK earnings. But there is more to this acquisition than immediate growth.

Meggitt's acquisition of Dunlop Aerospace is an ideal match because it is consistent with Meggitt's overall strategy. It brings new proprietary technology; expands niche specialities; provides multi-product offerings to simplify procurement for customers; and renews our focus on civil aerospace: the acquisition has significantly rebalanced the group's military and civil business at a time when the civil aerospace market is showing signs of recovery. Dunlop Aerospace is also delivering aftermarket sales from a solid OEM platform, another trademark of Meggitt's tried-and-tested business model.

Braking system

If you are a pilot entering *V1 Rotate*—the last point at which you can abandon takeoff—it takes real confidence to know that, if needed, you can stop quickly, safely and without damaging landing gear. After all, your plane will be travelling at full speed, be full of fuel and passengers and there won't be much runway to go.

The Gulfstream G550 pilot can have that confidence. From a starting speed of 217 nautical miles per hour, the advanced carbon *heat sink* material from which the luxury business jet's brakes are made will stop the aircraft safely within just 25 seconds—even when loaded to the maximum at around 50 tonnes. We know this because we regularly test our braking systems to extremes on our dynamometer—a test facility that can simulate the heaviest aircraft braking, like the 560-tonne A380.

- > Temperature tolerance: -62°C to +121°C
- > Maximum energy absorption per brake: 35.27 x 10⁶ ft lbs
- > Heat sink tolerance: 1,700°C
- > Load capacity: 91,000 lbs

Extreme braking with confidence.

Focus on China

Opportunities abound in China. And so do challenges. That's why, when establishing our first plant there, our approach was cautious, yet decisive; measured yet progressive. This led to the transformation of a greenfield site from December 2003 to a factory yielding high quality production nine months later.

To date, around USD 4 million of capital expenditure has been invested in establishing this centre of manufacturing excellence for Meggitt's commercial sensor and control technologies. It is competitive on cost, strategically located, has sound organisation, experienced leadership and flexible manufacturing capability, and the technical resources to drive growth and innovation.

While we are benefiting from the advantages of low cost manufacturing in China, our plans focus on regional growth opportunities. This covers support for key customer programmes from a local manufacturing base; and access to China's rapidly expanding economy where a broad range of growing industrial sectors can benefit from our specialist technologies, manufacturing experience and market knowledge.

Digital vibration monitoring system

Over ninety per cent of the world's commercial aircraft carry our vibration monitoring systems. The latest convert to this engine maintenance tool is the project team for the ARJ21, China's latest home-produced civil jet. The system specified delivers answers from sensors—the vibration data needed to balance an engine until it runs smoothly. This means a smooth ride for passengers and less wear and tear on valuable components.

What really sets the system apart is that data doesn't have to be gathered by running the engine on the ground—an expensive business. Instead, it can be collected and downloaded during a commercial flight, ready for maintenance crews to fine-tune the engine when the aircraft lands.

- > Mean time between failure: typically, at least 40,000 hours
- > Vibration balance capability: to around 0.5 mm per second

Responding with intelligence to aircraft economics.



High quality recruits

Xiamen, off the coast of Fujian province facing Taiwan, is home to Meggitt (Xiamen) Sensors & Controls Co Ltd—known as MXM—and other international aerospace businesses.

With a population of 1.3 million, Xiamen is a centre for high quality manufacturing and, thanks to its environmentally sensitive industrial development plan, one of China's cleanest and fastest growing cities. It has attracted a pool of highly educated, internationally experienced managers, engineers and skilled electronic assemblers from which Meggitt has recruited an exceptional team. It is led by a senior executive with extensive operational experience in Asia, reporting to Meggitt's Electronics division. Local consultants, who have worked for major international businesses in the region, helped with recruitment, logistics, regulation and cultural issues.

Operational excellence

The venture, wholly owned by Meggitt, has been designed and constructed to reflect the core values of entrepreneurship, international business standards and corporate citizenship. From day one, MXM applied established tools such as *Six Sigma*, *Lean*, *5S* and *Kanban* to drive operational excellence through all its activities.

Minimising risk

From feasibility study to product qualification, Meggitt employed a *Stage Gate* methodology to minimise risk while maximising project momentum. Projects are divided into time-sequenced stages of increasing commitment and expenditure, separated by management decision gates passed through only when a prescribed set of related cross-functional tasks have been completed.

Commercial production of Meggitt technologies—piezo-electric and piezo-resistive sensors for vibration and shock measurement in jet engines, industrial gas turbines, and in crash and laboratory testing—has reached full capacity, supported by around 100 staff. This figure could double to meet demand from Meggitt businesses and external customers.

Strategic product transfer

In 2005, MXM will develop its operations with continuous improvement initiatives and embark on a second phase of product transfers. Manufacturing will be extended to include product enhancement and customisation for Asian markets, and the transfer of production from other Meggitt businesses where the cost structure, capability or location of facilities does not support strategic business opportunities.

MXM will take advantage of the distribution and logistics capabilities of Meggitt's South East Asian aftermarket operations, which service the region's primary aviation market. MXM's customer services will focus on developing markets for our industrial test and measurement technology.

Doors open

MXM's facilitative role for the group will continue. In 2004, it supported sales of European product for programmes such as China's civil jet, the ARJ21, which will carry Meggitt's engine diagnostic equipment. MXM has also played a role in establishing the group's international purchasing office, which will develop relationships between key suppliers in Asia and Meggitt businesses worldwide.

Corporate Social Responsibility

Our performance as a responsible corporate citizen is informed by a set of established principles. They are reflected in management practice and enable us to respond with clarity to corporate social responsibility (CSR) reporting requirements.

Meggitt's CSR principles

- sound corporate governance standards
- compliance with relevant legislation and regulations
- continual improvement of 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

Responsible corporate citizenship at Meggitt means protecting stakeholders' interests by protecting our businesses and the people who work in them.

Our stakeholders want financial probity and 'real' profits; effective risk identification; robust internal and external reporting and control systems; business continuity plans that serve as dynamic management tools; safe working environments reviewed by independent audits; internationally accredited environmental management systems; training and the implementation of modern operational practices; enduring relationships with a premium client base where repeat business is punctuated by awards and commendations; and social and economic enrichment of local communities through donations, sponsorships and educational initiatives.

That's what we delivered in 2004—and here's how we did it:

CSR responsibility

- Headquarters: Terry Twigger, Chief Executive, assisted by Philip Green, Group Corporate Affairs Director
- Operations: strategic business unit managing directors

Governance

Meggitt has always conducted its business based on sound principles of corporate governance. Our approach is set out in the Directors' Statement (page 28). During 2004, we made significant progress implementing the Revised Code on Corporate Governance. We provided more information on corporate governance issues to the financial community through the London Stock Exchange's web-enabled Corporate Responsibility Exchange—among the first in the aerospace and defence sector to do so. Our profits remained 'real' as the group's cash inflow from operating activities in 2004 showed: 110 per cent of operating profit, after excluding the impact of exceptional costs.

Risk

Systems are in place across the group to identify and manage financial, operational, environmental and compliance risk. The Operations Executive and Board of Directors conducts risk reviews every six months. Our robust process for identifying, evaluating and managing internal risk is described under Internal Control (page 29).

In 2004, we advanced our operations' business continuity management plans. Following the 2003 review of all site plans with independent consultants, new or developed plans were implemented in 2004. Some 88 per cent were rated 'excellent' when reviewed against objective criteria. As we standardise business continuity

policy and processes during 2005, we will seek to ensure such planning is embedded firmly in every Meggitt business so that it remains a dynamic business tool.

Health and safety

The health, safety and welfare of our employees—and site visitors—is strongly promoted through safety training and protective equipment.

In 2004, with the help of external risk consultants, we continued to roll out the group's health and safety audit programme. Seven further Meggitt sites were audited in the year and a similar number will be audited in 2005.

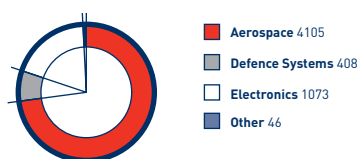
Environment

As a manufacturer, we regard health, safety and environmental issues as a CSR cornerstone.

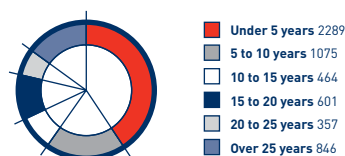
Progress on environmental management systems certification continues apace with seven more Meggitt businesses achieving the internationally accepted environmental management ISO14001 accreditation in 2004. Eight sites are scheduled for certification in 2005.

Minimising the environmental impact of our operations through good management practices is also being honed via a programme of external audits. Eight businesses were audited in 2004.

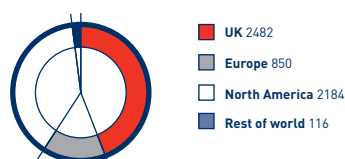
Employees by segment



Employees by length of service



Employees by location

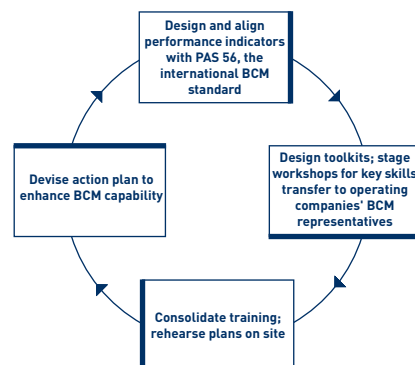


Meggitt's economic contribution in 2004

	'000
Wages and salaries	140,648
Tax on profit on ordinary activities	22,031
Social security costs	19,430
Total	182,109

Embedding business continuity management (BCM) planning at Meggitt

The four-phase cycle



Customers and suppliers

Since the supply of safety and mission critical products requires the highest standards of performance, delivery and quality if we are to sustain and win new business, we promote a robust quality ethos.

The majority of our sites have been certified to ISO9001:2000, the international quality management standard. While our relationships with aerospace and defence customers commonly span decades, many Meggitt businesses receive additional endorsements as key suppliers through regular commendations and awards for performance. In particular, Vibro-Meter, Meggitt's engine diagnostics business, regularly receives supplier-of-the-year awards from Airbus, most recently in 2003 and 2004.

Ethical business

Our long standing business ethics policy involves conducting business relationships openly and clearly, honouring contracts and eschewing the giving or receiving of compromising gifts.

Meggitt's new whistle-blowing facility enables any employee—without compromising their position or professional relationships—to report any breach of Meggitt's ethics and procedures to an independent organisation specialising in the correct and confidential handling of such issues.

Working at Meggitt

We are an international business with a diverse workforce subject to equal opportunities employment policies. The adoption of modern, operational practice is seen as vital to the group's continuing success, with training enhancing the value of employees personally as well as the businesses. We sponsor education through apprenticeships, MBAs and graduate courses.

Local communities

We make an important economic contribution to local communities. Salaries, tax and social security contributions across the group amounted to around £182 million in 2004 (38 per cent of sales).

Local, community-oriented donations, sponsorships and education programmes take place throughout Meggitt, exemplified at operational level by Endevco, a Meggitt sensor business in the United States, which will continue to provide an annual engineering scholarship to a state university and at group level by Meggitt's headquarters in the United Kingdom. For many years, it has provided a local comprehensive school with a board director as a governor, an annual award for outstanding student musicianship and sponsors a regional symphony orchestra to provide professional tuition and help stage public events to develop performance skills. Meggitt PLC continues to sponsor a local National Health Service hospital trust with educational bursaries, service and achievement awards and donations for specialist equipment and responds to *ad hoc* requests for financial help, particularly from schools.

The future

Meggitt will continue to develop and implement CSR practices that benefit our businesses, employees, customers, suppliers and local communities.

In 2005, this includes implementing refined systems of risk identification, reporting and control.

As an engineering business, health, safety and environment will remain at the top of our CSR agenda as we continue to roll out health and safety audits across the group and implement effective environmental management systems.

And we will ensure our acquisitions—Dunlop Aerospace, Wilcoxon and Schreiner—embrace Meggitt's CSR principles and other management standards. In turn, we will adopt new examples of best practice in any discipline to which we are exposed during the integration process.



Board of Directors

01 Sir Colin Terry KBE CB FREng (61)

Non Executive Chairman +

Sir Colin was appointed to the Board in February 2003 becoming Non Executive Chairman on 1 July, 2004. 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) and is a Chartered Engineer.

02 Terry Twigger (55)

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 at Lucas Aerospace. He is a Chartered Accountant.

03 Dr Richard Greaves (58)

Director

Richard, a Swiss citizen, joined Meggitt in 1998 following the acquisition of Vibro-Meter SA, of which he is President. He is Managing Director of Meggitt Aerospace Systems and was appointed to the Board in January 2001. Richard is a Fellow of the Institute of Physics and the Royal Aeronautical Society. (Richard resigned from the Board on 1 March, 2005).

04 Philip Green (48)

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.

05 John Stobie (50)

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. (John resigned from the Board on 1 March, 2005).

06 Stephen Young (49)

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.

07 Sir Alan Cox CBE (68)

Non Executive Director * + Ø

Sir Alan was appointed to the Board in May 1996. Previously Chief Executive of ASW Holdings PLC, he was also a director of The Morgan Crucible Company plc from 1995 until April 2004 and 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 and Chartered Management Accountant.

08 Peter Hill (52)

Non Executive Director * + Ø

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 was also a non executive director of Oxford Instruments plc from 1999 until May 2004. He is a Chartered Engineer and holds an MBA.

09 David Robins (55)

Non Executive Director * + Ø

David was appointed to the Board in January 2002. He was, until December 2000, Chairman and Chief Executive of ING Barings. Before 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 Chairman of LCH.Clearnet Limited and Henderson TR Pacific Investment Trust PLC, and is a director of MPC Investors Limited, two venture capital backed companies and four charities.

Membership of committees

* Audit

+ Nominations

Ø Remuneration



Report of the Directors

The directors submit their annual report and the audited financial statements for the year ended 31 December 2004.

Principal Activities and Business Review

Meggitt PLC is the parent company of a Group whose principal activities during the year 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 12 to 17.

Group Results

Profit before taxation amounted to £56,609,000 (2003: £44,328,000 as restated). The profit attributable to ordinary shareholders amounted to £34,578,000 (2003: £22,431,000 as restated) which after dividends of £30,059,000 (2003: £22,113,000) resulted in a retained profit for the financial year of £4,519,000 (2003: £318,000 as restated). Comparative figures for 2003 have been restated following the adoption of a new accounting policy for the capitalisation of development expenditure (see note 1 to the financial statements).

Dividends

The directors recommend the payment of a final dividend of 4.80p net per ordinary 5p share (2003: 4.44p) to be paid on 1 July 2005 to those members on the register at close of business on 1 April 2005.

An interim dividend of 2.20p (2003: 2.09p) was paid on 3 December 2004. If the final dividend recommended is approved the total ordinary dividend for the year will amount to 7.00p net per share (2003: 6.53p). 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. Comparative figures have been adjusted to reflect the bonus element of the rights issue announced in July 2004.

Share Dividend Plan

During 2004 the Company made available the Meggitt PLC Share Dividend Plan in respect of the dividends paid in July 2004 (being the final dividend for 2003) and in December 2004 (being the interim dividend for 2004). The amount of dividend necessary to give an entitlement to one new ordinary share was fixed at 238.15p and 243.25p 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 2004 were 262.50p and 255.50p respectively. Because, in each case, the difference between the opening value and the amount of the cash dividend necessary to give an entitlement to one new share is not more than 15%, the Inland Revenue will not seek to substitute the opening value for that amount.

Acquisitions and Disposals

On 24 August 2004, Meggitt acquired from Doughty Hanson the Design and Manufacturing Division of Dunlop Standard Aerospace Group Limited for total consideration of £426.8 million paid in cash.

In December 2004, Meggitt completed the acquisitions of three businesses for total combined consideration of £14.3 million paid in cash: Wilcoxon Research US Inc.; Schreiner Canada Limited; and from Eaton Aerospace LLC the assets and business of certain flight-lock actuators for Boeing aircraft.

Share Capital

Shareholders' approval was given on 21 July 2004 to increase the authorised share capital from £18,700,000 to £32,000,000 by the creation of an additional 266,000,000 ordinary shares of 5p each. Subsequently 128,269,406 new ordinary shares of 5p each were issued at 145p per share by way of a 3 for 7 rights issue to shareholders on the register on 14 July 2004. Following the rights issue, adjustments have been made to all share options outstanding on 14 July 2004, granted under the Meggitt 1998 Sharesave Scheme, the Meggitt PLC 1984 Share Option Scheme, the Meggitt 1996 No.1 Executive Share Option Scheme, the Meggitt 1996 No.2 Executive Share Option Scheme and the Meggitt PLC Discretionary Overseas Share Option Scheme.

The authorised share capital of the Company together with details of shares issued during the financial year is shown in note 23 on page 57. A further 49,909 ordinary shares have been issued between 31 December 2004 and 21 February 2005 as a result of the exercise of share options.

Share Incentive Plan (the "Plan")

The Trustee of the Plan has been allocated £505,000 from the 2004 profits to acquire ordinary shares in Meggitt PLC for eligible employees (2003: £195,000).

Directors and their Interests

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

Mr P J Hill was appointed to the Board as a non executive director and Mr S G Young was appointed to the Board as Group Finance Director, both on 1 January 2005.

Mr M A Stacey retired as Chairman and a director on 30 June 2004, and Sir Colin Terry was appointed Chairman with effect from 1 July 2004.

On 1 March 2005 Dr R W Greaves and Mr J J Stobie resigned as directors in order that the balance of the board complies with the requirements of the Combined Code.

In accordance with Article 75 of the Company's Articles of Association, Mr D A Robins and Mr T Twigger 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 33 and 35 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 21 February 2005 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
FMR Corp. and Fidelity International Limited	25,859,123	6.02
Aviva plc	24,866,897	5.79
Legal and General Group plc	21,544,748	5.01
Britannic Asset Management Limited	15,999,719	3.72
Prudential plc	14,559,931	3.39

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 (2003: £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 2004 amounted to £35,000 (2003: £19,000). In addition, Meggitt PLC gave financial assistance to local organisations amounting to £5,000 (2003: £10,000). 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 Share Incentive Plan, Savings Related Share Option Scheme and the Executive Share Option Schemes.

It is estimated that, when the current year's allocation has been made by the Trustee under the Share Incentive Plan, approximately 1,750 UK employees will hold shares in the Company. The number of employees contributing to the Savings Related Share Option Scheme at 31 December 2004 was 251.

Payment Policy

The Company's 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 2004 were 34 (2003: 26 days). Group creditor days at 31 December 2004 were 82 (2003: 67 days). These calculations are made in accordance with the Companies Act 1985 and therefore include the full value of trade creditors in the acquired businesses but only include their purchases from the respective dates of acquisition. Therefore, although there has been no change in payment policy, the respective timing of acquisitions has resulted in a higher creditor days figure when calculated in accordance with the Companies Act 1985. When adjusted for the effect of acquisitions, creditor days for the Group at 31 December 2004 were 67.

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 continued its programme of health and safety audits at the operating facilities which are undertaken by an independent contractor.

Equal Opportunities

The Group has a policy supporting the principle of equal opportunities in employment and opposing 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 2004 on research and development amounted to £27,650,000 (2003: £19,988,000), of which £5,010,000 (2003: £3,923,000) was capitalised in accordance with the Group's revised accounting policy (see note 1 to the financial statements).

Details of Resolutions to be Proposed at the Annual General Meeting

Details of the Annual General Meeting to be held on 12 May 2005, 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; (ii) renew the authority of the directors to issue shares under Article 4 of the Company's Articles of Association; (iii) increase the maximum aggregate amount of directors' fees; (iv) renew the Share Dividend Plan; and (v) approve new employee incentive arrangements for senior executives, namely the Meggitt Equity Participation Plan 2005 and the Meggitt Executive Share Option Scheme 2005 (a summary of the principal terms of which is set out in the Appendix to the Notice of the Annual General Meeting).

Auditors

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.

Statement of Directors' Responsibilities

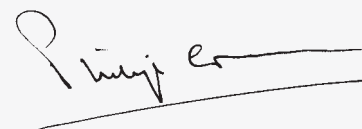
United Kingdom Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the results of the Group for that period. In preparing those financial 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 confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



P E Green
Director & Secretary
1 March 2005

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 July 2003) by complying with the Code of Best Practice as reported in the Statement of Compliance on page 30. 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 31.

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 which was updated and approved by the Board during the year. 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 Sir Colin Terry 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 P J Hill and Mr D A Robins.

Committee membership, number of formal meetings held during 2004 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 P J Hill (from 26.8.04)	1	1
Mr D A Robins	3	3
Sir Colin Terry (until 26.8.04)	2	2
Remuneration		
Mr D A Robins (Chairman)	5	5
Sir Alan Cox	5	5
Mr P J Hill (from 26.2.04)	4	4
Mr M A Stacey (until 30.6.04)	2	2
Sir Colin Terry (until 30.6.04)	2	2
Nominations		
Sir Colin Terry (Chairman from 26.8.04)	2	2
Mr M A Stacey (Chairman until 30.6.04)	1	1
Sir Alan Cox	2	2
Mr D A Robins	2	2
Mr P J Hill (from 26.2.04)	2	2
Mr T Twigger	2	2

The full Board met on eight occasions and these meetings were attended by all directors.

The Chairman also talks with and holds meetings on an informal basis with the other non executive directors without the executives present. The Chairman's performance was appraised by the non executive directors early in 2005 as he was only appointed in July 2004.

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 was approved and agreed in writing by the Board during 2004. Mr M A Stacey as Chairman was not independent as defined in Code Provision A.3.1 on his appointment as he was Chief Executive until January 2001, but Sir Colin Terry met the independence criteria on appointment as Chairman on 1 July 2004.

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 includes 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 1 January 2004 to 30 June 2004 (when Mr M A Stacey resigned) the Board consisted of five executive and five non executive directors of whom four were considered to be independent. From 30 June 2004 there have been three independent non executive directors in addition to the Chairman.

On 1 March 2005 Dr R W Greaves and Mr J J Stobie resigned from the Board so that half the Board, excluding the Chairman, will consist of independent non executive directors.

Sir Colin Terry met the independence criteria on appointment as Chairman on 1 July 2004.

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 non executive directors and the Committee is chaired by the Chairman. During the year the Board approved terms of reference for the Nominations Committee which are available on the Company's website.

Prior to the appointment of Mr P J Hill and Mr S G Young on 1 January 2004, the Nominations Committee evaluated the balance of skills, knowledge and experience on the Board and agreed a description of the roles and capabilities for the respective appointments.

Prior to the appointment of Sir Colin Terry as chairman, a job specification was prepared, including an assessment of the time commitment expected. Sir Colin's other significant commitments were disclosed to the Board before appointment. He is Chairman of the Engineering Council (UK). The Nominations Committee were unanimous in deciding that Sir Colin Terry had the appropriate skills and experience to be appointed Chairman and did not consider it in the best interests of the Company to use an external search agency or to advertise.

The terms and conditions of appointment of non executive directors are available for inspection. The letters of appointment set out the expected time commitment required and on appointment their other significant commitments were disclosed along with the time involved.

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

External search agencies were used for the appointments of both Mr P J Hill and Mr S G Young, which commenced on 1 January 2004. Other than Mr Hill and Mr Young there have been no new appointments to the Board during the year. The Nominations Committee met to discuss the appointment of Sir Colin Terry as Chairman and the structure of the Board, the balance of skills and the plans to move to a position where half the Board consists of independent non executive directors.

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.

The non executive directors believe that it is in the best interests of the Company for Mr P E Green to continue to combine the role of Company Secretary with his responsibilities as an executive director for legal, compliance and administrative matters given his 22 years of experience as a chartered secretary at a senior corporate level and their ability to obtain independent professional advice if that were deemed necessary. This will be kept under regular review.

6. Performance Evaluation

During the last 12 months the Board has conducted a self-evaluation assessment of itself and its committees. Following completion of an independently supplied questionnaire by all directors, the Chairman led two separate discussions to consider the Board's "behaviours" and "processes". Certain areas were identified for improvement or action. The Audit and Remuneration Committees also considered their own performance. The performance of individual directors has been considered by the Chairman and Chief Executive in discussion with other non executive directors. The non executive directors have considered the performance of the Chairman, taking into account the views of the executive 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 in order to align their interests with those of the shareholders and to incentivise them. 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 Remuneration Committee has appointed Towers Perrin to advise on remuneration packages for executive directors. Towers Perrin conducted a benchmarking exercise of the value of the total remuneration received by executive directors. The Committee considered this advice when reviewing salaries to take effect from 1 January 2005.

The policy of the Remuneration Committee is to offer 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 three members, all of whom are considered to be independent. The Board has approved written terms of reference for the Committee which are available on the Company's website. During 2004 Towers Perrin were appointed as advisors to the Committee; they have no other known connection with the Company.

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

It is proposed to submit new share option and long term incentive schemes for shareholder approval at the forthcoming Annual General Meeting.

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 regularly reviews various types of risk identified in the businesses and a summary of the key risks is presented to the Board twice a year.
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 before exceptional operating costs represented 110% of operating profit before exceptional operating costs and goodwill amortisation in 2004.

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 Board has approved written terms of reference for the Committee which are available on the Company's website. During 2004 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 (which included the main risks facing the Group) 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.

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 has primary responsibility for recommending the appointment, reappointment and removal of the external auditors.

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.

During the year arrangements were put in place to enable employees to raise any concerns about possible improprieties in matters of financial reporting or otherwise. These arrangements allow for proportionate and independent investigation and for appropriate follow-up action.

The Committee reviews at each meeting the activities of the Internal Audit function and regularly reviews its effectiveness.

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 2004 the Company has complied with the provisions set out in Section 1 of the 2003 Combined Code on Corporate Governance issued by the Financial Services Authority with the following exceptions:

- a) A.3.2 – at least half of the Board, excluding the Chairman, did not comprise independent non executive directors. This has been rectified following the resignations of Dr R W Greaves and Mr J J Stobie on 1 March 2005.
- b) B.1.1 and Schedule A – annual bonuses for executive directors were pensionable in order to be consistent with other senior employees. It should be noted that, unlike for uncapped senior employees, contributions were not made in respect of the value of other taxable benefits. The Remuneration Committee has decided that bonuses for executive directors will no longer be pensionable and therefore any bonus paid in respect of 2004 performance will not be pensionable.
- c) B.2.1 – the Remuneration Committee now consists of three independent non executive directors but until 30 June 2004 Mr M A Stacey was a member of the Committee. Mr Stacey was not considered to be independent as he was a former Chief Executive of the Company.
- d) C.3.1 – for the short period from 1 July 2004 to 26 August 2004 Sir Colin Terry remained a member of the Audit Committee even though he was Chairman of the Board in order that there might be three members.

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 16 and 17.

Remuneration Report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. It 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") has consisted since 30 June 2004 solely of three independent non executive directors: Mr D A Robins (Committee Chairman), Sir Alan Cox and Mr P J Hill. Mr M A Stacey and Sir Colin Terry were members of the Committee until Mr Stacey stood down as a director and Sir Colin Terry became Chairman in June 2004. Mr P J Hill joined the Committee on 26 February 2004. 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 external professional advice. In 2004 Towers Perrin were appointed as advisors to the Committee. As far as the Committee is aware Towers Perrin have no other relationship with the Company. Towers Perrin conducted a benchmark review of the executive directors' salaries and total remuneration packages and made recommendations which were taken into account for the salary review which took effect from 1 January 2005. Towers Perrin have also recommended new share incentive schemes for the executive directors and other senior executives to replace the existing Executive Share Option and Equity Participation Schemes which will expire in 2006. It is intended to submit the proposed new schemes to the shareholders for approval at the Annual General Meeting in May 2005.

The terms of reference for the Remuneration Committee were approved by the Board during 2004 and are available on the Company's website.

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. Advice has been received from Towers Perrin on executive directors' remuneration.

The remuneration package for executive directors and senior management is designed to include a significant performance related element. In 2005 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 or any replacement scheme approved by the shareholders;
- 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. Relocation allowances are also available for new executive directors.

It is planned to introduce schemes to replace the Equity Participation and Executive Share Option Schemes during 2005 following shareholder approval. If shareholders accept these proposals, which are made following Towers Perrin's advice, the mix between fixed and variable pay will be broadly 50/50 for the UK based executive directors (the 'UK directors').

Our intention is to target median levels of fixed pay, whilst operating incentive schemes that provide management with the ability to earn more for true out-performance, partly through the active encouragement of management co-investment. The key principles on which the proposals are founded are:

- to reward and incentivise growth;
- to provide a strong link to performance; and
- to take account of and, as far as possible, to follow corporate governance best practice.

The details of the new share schemes are set out in the Appendix to the Notice of the Annual General Meeting.

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 Towers Perrin, 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 level for companies of a similar size and type given the continuing very good financial performance of the Group.

As a result of the most recent review, which took account of the continuing excellent performance of the Company, the most recent benchmarking exercise and the increased responsibilities of the directors following the acquisition of the Design and Manufacturing Division of Dunlop Standard Aerospace Group Limited, basic salaries for executive directors have been increased, in line with the above policy, with effect from 1 January 2005 as follows:

T Twigger	£450,000
P E Green	£200,000
S G Young	£260,000
R W Greaves	(resigned 1 March 2005) CHF435,000
J J Stobie	(resigned 1 March 2005) US\$450,000

Annual Bonus Payments

The annual bonus payments for Mr T Twigger, Mr S G Young and Mr P E 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 R W Greaves and Mr J J Stobie are based primarily on the performance of their respective business units. Following the recent remuneration review, and taking account of the structure of the package as a whole, the Committee has decided to reduce the maximum bonus which can be earned by any executive director from 200% to 150% of basic salary, other than in truly exceptional circumstances. However, this level has not been reached in the past and is expected to be very rarely reached by UK directors in the future. Achievement of profit and cash targets together with the individual's personal performance and contribution are the main criteria for awards. The level of bonus payments reflects the continuing outstanding financial performance, growth and development of the Group, as shown by the improvement in profit; the increase in earnings per share (when adjusted for the change in the accounting for development expenditure and the bonus element of the rights issue); the increase in final dividend; the continuing strong cash flow from operating activities; and the successful completion of acquisitions.

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. During 2005 it is planned to introduce new schemes following shareholder approval. There will be no further awards under the existing Equity Participation Scheme and Executive Share Option Schemes to UK directors.

Further details of our proposals for the new share schemes are set out in the Appendix to the Notice of the Annual General Meeting. However, our intention is to retain the current balance of share options and performance shares with a number of changes as follows:

Options:

- to be modernised through the removal of the old maximum four times salary limit and a move to annual grants;
- a tightening of performance conditions through the removal of current re-testing opportunities; and
- setting a sliding scale of EPS performance that is much more challenging.

Performance shares:

- again to be modernised by moving to a three year performance period;
- retention of the focus on relative TSR against an industry specific peer group, whilst adopting a payout curve that is more in line with best practice; and
- the introduction of a co-investment element, which will allow participants to invest up to 25% of their salary into Meggitt shares in return for the possibility of earning higher awards under the plan, subject to the same TSR performance condition as the base award.

On the basis of the award levels proposed in the Appendix to the Notice of the Annual General Meeting, the annual cost of these plans for awards made to executive directors and the broader management committee would be in the region of £1.7 million, although it could be significantly lower if the EPS performance condition is not met in full.

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 20 other companies in the aerospace, defence and engineering sectors. 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 companies in which 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. They become available to the director or executive after three years.

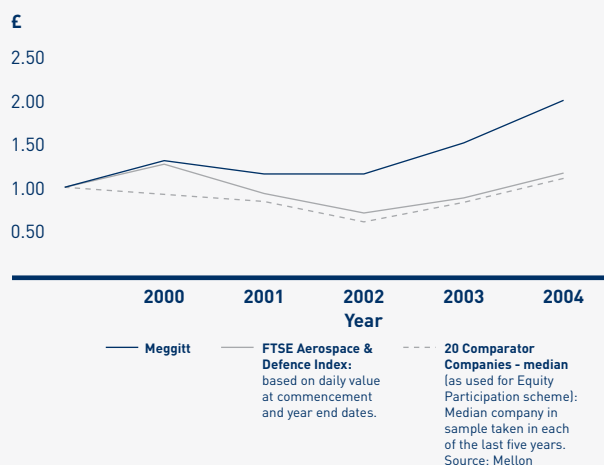
The Company receives advice and verification from Mellon on the TSR calculations. Mellon advises the Company on its executive and employee share schemes and has no other relationship with the Company. There follows a list of the comparator companies which were in the comparator group during 2004:

BAE Systems PLC; Bodycote International plc; Charter plc; Chemring PLC; Cobham plc; First Technology PLC; GKN PLC; Halma PLC; Intelek 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 2004 the Company achieved eighth position and therefore an award of 40% of basic salary at 31 December 2004 was made to the executive directors and eight other participants. An award of 20% was made to an additional eight participants.

TSR Five-Year 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. It will be proposed to shareholders that this condition will be more challenging in the new schemes to be introduced in 2005.

The Company's earnings per share performance during the last five years is shown on page 69.

Share Incentive Plan ("SIP") (formerly known as the All Employee Share Plan)

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 SIP under the provisions of the Finance Act 2000. These shares are allocated to eligible UK employees, including UK directors, on the basis of total earnings in the year, and are transferred for no consideration.

Directors' Share Interests

The beneficial interests of the directors in the ordinary shares of the Company at 31 December 2003 (or date of appointment, if later) and 31 December 2004 were as follows:

	Shareholding Ordinary shares of 5p each	
	2004	2003
Sir Colin Terry	2,284	–
T Twigger	353,047	216,265
Sir Alan Cox	20,000	30,000
R W Greaves	98,119	58,533
P E Green	164,326	99,844
P J Hill	–	–
D A Robins	37,619	8,907
J J Stobie	67,064	25,000
S G Young	14,285	–

Two executive directors were allocated shares at an initial market value of 248.00p under the Share Incentive Plan during 2004 as follows:

	Ordinary shares of 5p each
T Twigger	1,209
P E Green	767

These shares have been included in the share interests shown in the table above. Details of directors' share options are shown on page 35.

Directors' Pension Arrangements

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, additional contributions are made, based on the excess of basic salary over 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 2004 are shown on page 34. 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.

Pension arrangements for the UK directors are being reviewed in view of the tax simplification measures to be introduced in April 2006. The Committee has decided that bonus payments for the UK directors will no longer be treated as pensionable with effect from 1 January 2005.

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 2001 and Mr S G Young has a rolling service contract dated 27 February 2004. The notice period required from the Company is 12 months and they are required to give the Company notice of 6 months.

Under the contracts for Mr Twigger, Mr Young and Mr Green 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 12 months' notice from Vibro-Meter SA and he is required to give 12 months' notice. Vibro-Meter SA 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 and the remuneration of the Chairman is determined by the Remuneration Committee of the Board within the limits set out in the Articles of Association. The Finance and Remuneration Committees use information from external surveys, in order to set the level of fees. Fees paid to non executive directors during 2004 are shown on page 34.

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 D A Robins and Mr T Twigger will retire by rotation and are being proposed for re-election. Mr Twigger has a service contract with a notice period of 12 months required from the Company.

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. During 2004 no executive director was a director of any other public company.

Audited Information

Details of Directors' Remuneration

	Basic salary 2004 £	Fees 2004 £	Benefits 2004 £	Bonus payments 2004 £	Total emoluments excluding pension 2004 £	2003 £
Executive directors						
T Twigger	375,000	–	26,823	355,750	757,573	486,394
R W Greaves	182,224	–	16,000	147,000	345,224	256,109
P E Green	175,000	–	11,343	184,250	370,593	239,504
J J Stobie	234,422	–	10,658	320,100	565,180	282,027
S G Young	230,000	–	43,924	220,500	494,424	–
Non executive directors						
Sir Colin Terry	–	53,500	–	–	53,500	24,167
Sir Alan Cox	–	45,000	2,209	–	47,209	40,349
P J Hill	–	32,000	–	–	32,000	–
D A Robins	–	32,000	–	–	32,000	29,000
Former directors						
M A Stacey	–	37,500	–	–	37,500	67,000
C J Rickard	–	–	–	–	–	194,458
Sir Donald Spiers	–	–	–	–	–	12,083
Total	1,196,646	200,000	110,957	1,227,600	2,735,203	1,631,091

Directors' Pension Benefits

Directors' membership of the various pension schemes is shown on page 33.

	T Twigger £	P E Green £	S G Young £
Meggitt Executive Pension Plan			
Accumulated total accrued pension at 31 December 2003	17,200	31,100	–
Real increase in accrued pension in year excluding inflation	1,700	3,400	3,400
Total increase in accrued pension in year	2,200	4,300	3,400
Accumulated total accrued pension at 31 December 2004	19,400	35,400	3,400
Transfer value (GN11 basis) at 31 December 2003	199,600	253,400	–
Real increase in transfer value excluding inflation less directors' contributions	23,600	35,300	29,300
Directors' contributions	5,100	5,100	5,100
Other increases in transfer value	21,800	35,600	–
Transfer value (GN11 basis) at 31 December 2004	250,100	329,400	34,400
Funded Unapproved Retirement and Death Benefits Scheme			
Company Payments - 2003	122,830	37,580	–
Company Payments - 2004	151,980	47,120	56,650
			J J Stobie £
Whittaker Corporation Employees' Pension Plan			
Accumulated total accrued pension at 31 December 2003			19,500
Increase in accrued pension in year			–
Exchange differences			(1,300)
Accumulated total accrued pension at 31 December 2004			18,200
Transfer value at 31 December 2003			66,300
Real increase in transfer value excluding inflation			–
Other increases in transfer value			8,100
Exchange differences			(4,900)
Transfer value at 31 December 2004			69,500
Whittaker Corporation Partnership Plan (401k)			
Company payments - 2003			12,896
– 2004			11,307

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 defined contribution pension plan of £31,097 (2003: £27,315) in respect of Dr R W Greaves.

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

	Number of options								
	at 1 Jan 2004	Granted	Rights issue adjustment	Exercised	at 31 Dec 2004	Exercise price*	Market price at date of exercise	Date from which exercisable	Expiry date
T Twigger									
1996 No 1 Scheme	17,271	–	2,567	–	19,838	151.22p	–	20.04.01	19.04.08
1996 No 2 Scheme	58,332	–	8,671	67,003	–	151.22p	248.50p	20.04.01	19.04.05
	96,685	–	14,369	–	111,054	157.58p	–	01.10.02	30.09.06
	5,139	–	763	–	5,902	189.36p	–	14.12.03	13.12.07
	179,738	–	26,717	–	206,455	133.20p	–	27.09.04	26.09.08
	149,863	–	22,269	–	172,132	159.76p	–	17.10.05	16.10.09
	128,898	–	19,158	–	148,056	209.38p	–	02.10.06	01.10.10
	–	152,439	–	–	152,439	246.00p	–	06.10.07	05.10.11
Sharesave Scheme	2,287	–	–	2,287	–	169.40p	234.00p	01.01.04	30.06.04
	2,571	–	382	–	2,953	127.98p	–	01.01.06	30.06.06
	640,784	152,439	94,896	69,290	818,829				
	Number of options								
	at 1 Jan 2004	Granted	Rights issue adjustment	Exercised	at 31 Dec 2004	Exercise price*	Market price at date of exercise	Date from which exercisable	Expiry date
R W Greaves									
1996 No 2 Scheme	55,803	–	8,292	–	64,095	189.36p	–	14.12.03	13.12.07
	102,905	–	15,296	–	118,201	133.20p	–	27.09.04	26.09.08
	32,410	–	4,816	–	37,226	159.76p	–	17.10.05	16.10.09
	25,000	–	3,715	–	28,715	209.38p	–	02.10.06	01.10.10
	–	73,099	–	–	73,099	246.00p	–	06.10.07	05.10.11
	216,118	73,099	32,119	–	321,336				
	Number of options								
	at 1 Jan 2004	Granted	Rights issue adjustment	Exercised	at 31 Dec 2004	Exercise price*	Market price at date of exercise	Date from which exercisable	Expiry date
P E Green									
1996 No 1 Scheme	7,074	–	1,051	–	8,125	101.52p	–	27.03.00	26.03.07
	12,521	–	1,861	–	14,382	151.22p	–	20.04.01	19.04.08
1996 No 2 Scheme	34,916	–	5,190	40,106	–	151.22p	248.50p	20.04.01	19.04.05
	47,019	–	6,988	–	54,007	157.58p	–	01.10.02	30.09.06
	81,699	–	12,144	–	93,843	133.20p	–	27.09.04	26.09.08
	68,119	–	10,122	–	78,241	159.76p	–	17.10.05	16.10.09
	62,370	–	9,270	–	71,640	209.38p	–	02.10.06	01.10.10
	–	71,138	–	–	71,138	246.00p	–	06.10.07	05.10.11
Sharesave Scheme	2,536	–	376	–	2,912	133.79p	–	01.10.05	31.03.06
	3,984	–	592	–	4,576	147.48p	–	01.01.06	30.06.06
	4,469	–	664	–	5,133	127.98p	–	01.01.08	30.06.08
	324,707	71,138	48,258	40,106	403,997				
	Number of options								
	at 1 Jan 2004	Granted	Rights issue adjustment	Exercised	at 31 Dec 2004	Exercise price*	Market price at date of exercise	Date from which exercisable	Expiry date
J J Stobie									
1996 No 2 Scheme	70,339	–	10,453	–	80,792	157.58p	–	01.10.02	30.09.06
	87,197	–	12,957	–	100,154	189.36p	–	14.12.03	13.12.07
	133,516	–	19,846	–	153,362	133.20p	–	27.09.04	26.09.08
	104,188	–	15,482	–	119,670	159.76p	–	17.10.05	16.10.09
	14,368	–	2,135	–	16,503	209.38p	–	02.10.06	01.10.10
	–	78,149	–	–	78,149	246.00p	–	06.10.07	05.10.11
	409,608	78,149	60,873	–	548,630				
	Number of options								
	at 1 Jan 2004	Granted	Rights issue adjustment	Exercised	at 31 Dec 2004	Exercise price*	Market price at date of exercise	Date from which exercisable	Expiry date
S G Young									
1996 No.1 Scheme	–	12,820	1,905	–	14,725	203.72p	–	01.04.07	31.03.14
1996 No.2 Scheme	–	183,761	27,313	–	211,074	203.72p	–	01.04.07	31.03.11
	–	196,581	29,218	–	225,799				

* adjusted where appropriate for the rights issue announced in July 2004.

The performance criteria for Share Schemes and Share Option Schemes are shown on page 32.

No non executive directors held any options over the Company's shares at any time during the relevant periods. Between 1 January 2005 and 21 February 2005 (the latest date for which it was practical to obtain the information) the following change occurred in the directors' interests shown above; Mr T Twigger and Mr P E Green each acquired 93 shares through the Meggitt PLC Share Incentive Plan (formerly the Meggitt PLC All Employee Share Plan).

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			at 31 Dec 2004	Market price at actual date of transfer	First date for transfer to directors
			at 1 Jan 2004	Rights issue adjustment	Transferred to directors			
T Twigger	22.03.01	87,500	38,546	–	38,546	–	239.25p	22.03.04
	22.03.02	54,999	28,350	3,853	–	32,203	–	22.03.05
	14.04.03	137,500	79,250	10,770	–	90,020	–	14.04.06
R W Greaves	22.03.01	61,923	27,279	–	27,279	–	239.25p	22.03.04
	22.03.02	31,354	16,162	2,196	–	18,358	–	22.03.05
	14.04.03	84,475	48,688	6,617	–	55,305	–	14.04.06
P E Green	22.03.01	52,498	23,127	–	23,127	–	239.25p	22.03.04
	22.03.02	24,999	12,886	1,751	–	14,637	–	22.03.05
	14.04.03	62,500	36,023	4,896	–	40,919	–	14.04.06
J J Stobie	22.03.01	95,485	42,064	–	42,064	–	239.25p	22.03.04
	22.03.02	42,007	21,653	2,943	–	24,596	–	22.03.05
	14.04.03	95,000	54,755	7,441	–	62,196	–	14.04.06

The shares were transferred for no consideration. No allocations were made during the year.

The market price of the shares at 31 December 2004 was 261.75p and the range during the year was 208.00p to 268.00p (as adjusted to reflect the bonus element of the rights issue in July 2004). Options may, in certain circumstances, be exercised or lapse earlier than the dates shown on page 35.

Gains made on exercise of directors' share options	Exercise date	Options exercised	Gain 2004 £'000	Gain 2003 £'000
T Twigger	02.01.04	2,287	1	–
	05.10.04	67,003	65	197
R W Greaves			–	124
P E Green	05.10.04	40,106	39	75
M A Stacey			–	102
			105	498

Gains in 2004 were made on options granted under the rules of the Meggitt 1996 No 2 Executive Share Option Scheme and Meggitt 1998 Sharesave Scheme, as detailed in directors' share interests on page 35.

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 2005

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. 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, chief executive's operating review, financial review, board of directors, report of the 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 nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or 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.

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 2004 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 2005

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 2004

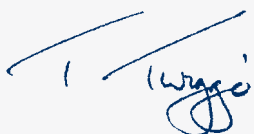
	Notes	2004 Continuing £'000	2004 Acquisitions £'000	2004 Total £'000	2003 Restated Total £'000
Turnover	2	430,084	49,099	479,183	402,441
Cost of sales	3	(233,634)	(27,597)	(261,231)	(219,879)
Gross profit		196,450	21,502	217,952	182,562
Net operating expenses – before goodwill amortisation and exceptional operating costs	3	(106,686)	(10,646)	(117,332)	(96,541)
Exceptional operating costs	5	(3,673)	(4,206)	(7,879)	–
Amortisation of goodwill	3	(19,262)	(5,719)	(24,981)	(20,185)
Net Operating Expenses	3	(129,621)	(20,571)	(150,192)	(116,726)
Operating profit before goodwill amortisation and exceptional operating costs		89,764	10,856	100,620	86,021
Exceptional operating costs	5	(3,673)	(4,206)	(7,879)	–
Amortisation of goodwill	3	(19,262)	(5,719)	(24,981)	(20,185)
Operating profit	4	66,829	931	67,760	65,836
Net loss on disposal of discontinued operations	5	–	–	–	(13,334)
Profit on ordinary activities before interest		66,829	931	67,760	52,502
Interest payable (net)	8	(6,498)	(4,653)	(11,151)	(8,174)
Profit/(loss) on ordinary activities before taxation		60,331	(3,722)	56,609	44,328
Tax on profit on ordinary activities	9			(22,031)	(21,897)
Profit for the financial year				34,578	22,431
Dividends	11			(30,059)	(22,113)
Retained profit for the financial year	25			4,519	318
Earnings per share – basic	12			9.1p	6.7p
Earnings per share – diluted	12			9.1p	6.7p
Earnings per share – IIMR	12			15.4p	16.4p
Profit on ordinary activities before taxation, exceptional operating costs, loss on disposal of discontinued operations and goodwill amortisation		83,266	6,203	89,469	77,847

Consolidated Balance Sheet

As at 31 December 2004

	Notes	2004 £'000	2003 Restated £'000
Fixed assets			
Goodwill	13	610,045	318,877
Development expenditure	13	18,503	5,262
Licences, patents and trademarks	13	285	637
Tangible assets	14	113,055	53,312
Investments	15	1,075	1,075
		742,963	379,163
Current assets			
Stocks	16	106,351	73,539
Debtors – amounts falling due within one year	17	121,835	97,956
Debtors – amounts falling due after more than one year	17	54,436	24,343
Cash at bank and in hand		43,951	22,670
		326,573	218,508
Creditors – amounts falling due within one year	18	(161,116)	(117,151)
Net current assets		165,457	101,357
Total assets less current liabilities		908,420	480,520
Creditors – amounts falling due after more than one year	19	(377,669)	(159,195)
Provisions for liabilities and charges	21	(65,756)	(50,201)
Net assets		464,995	271,124
Capital and reserves			
Called up share capital	23	21,481	14,761
Share premium account	25	342,636	155,475
Other reserves	25	14,064	14,064
Revaluation reserve	25	54	55
Profit and loss account	25	86,760	86,769
Shareholders' funds – equity	24	464,995	271,124

The financial statements were approved by the Board of Directors on 1 March 2005 and signed on its behalf by:



T Twigger
Director




S G Young
Director

Company Balance Sheet

As at 31 December 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	14	628	593
Investments	15	163,141	152,395
		163,769	152,988
Current assets			
Debtors	17	917,606	297,204
Cash at bank and in hand		2,565	3,383
		920,171	300,587
Creditors – amounts falling due within one year	18	(284,040)	(78,321)
Net current assets		636,131	222,266
Total assets less current liabilities		799,900	375,254
Creditors – amounts falling due after more than one year	19	(360,626)	(153,064)
Provisions for liabilities and charges	21	(512)	–
Net assets		438,762	222,190
Capital and reserves			
Called up share capital	23	21,481	14,761
Share premium account	25	342,636	155,475
Other reserves	25	17,556	17,556
Profit and loss account	25	57,089	34,398
Shareholders' funds – equity		438,762	222,190

The financial statements were approved by the Board of Directors on 1 March 2005 and signed on its behalf by:



T Twigger
Director



S G Young
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Notes	2004 £'000	2004 £'000	2003 Restated £'000	2003 Restated £'000
Cash inflow from operating activities before exceptional operating costs			111,012		85,582
Cash outflow from exceptional operating costs	5		(3,088)		–
Cash inflow from operating activities	27		107,924		85,582
Returns on investments and servicing of finance					
Interest received		1,094		866	
Debt issue costs		(1,122)		(731)	
Interest paid		(11,223)		(8,406)	
			(11,251)		(8,271)
Taxation			(18,578)		(12,728)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(14,159)		(10,307)	
Purchase of intangible fixed assets		(5,032)		(3,923)	
Sale of tangible fixed assets		192		401	
Sale of investments		25		262	
			(18,974)		(13,567)
Cash inflow before corporate items			59,121		51,016
Acquisitions and disposals					
Purchase of businesses	31	(440,447)		(60,454)	
Net cash acquired with businesses	31	6,914		11	
Disposal of businesses		–		3,181	
			(433,533)		(57,262)
Equity dividends paid			(13,529)		(12,162)
Cash outflow before financing			(387,941)		(18,408)
Financing					
Issue of ordinary share capital		188,542		1,876	
Expenses of issue of ordinary share capital		(5,625)		–	
Debt due within one year:					
increase in short term borrowings	29	12,193		26,574	
repayment of short term borrowings	29	(15,427)		(36,567)	
Debt due beyond one year:					
increase in long term borrowings	29	241,176		163,030	
repayment of long term borrowings	29	(13,479)		(140,861)	
			407,380		14,052
Increase/(decrease) in cash in year	30		19,439		(4,356)

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

	2004 £'000	2003 Restated £'000
Profit for the financial year	34,578	22,431
Currency translation differences on foreign currency net investments	(4,554)	(13,051)
Total recognised gains and losses relating to the year	30,024	9,380
Prior year adjustment (see note 1)	3,727	
Total gains and losses recognised since last annual report	33,751	

Note on Group Historical Cost Profits and Losses

For the year ended 31 December 2004

	2004 £'000	2003 Restated £'000
Reported profit on ordinary activities before taxation	56,609	44,328
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	1	2
Historical cost profit on ordinary activities before taxation	56,610	44,330
Historical cost profit for the year retained after taxation and dividends	4,520	320

Notes to the Financial Statements

For the year ended 31 December 2004

1. Accounting Policies

Accounting Convention

These accounts are prepared under the historical cost accounting convention, as modified to include the revaluation of certain assets, in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards. These policies have been applied consistently from the preceding year with the exception of development expenditure where a new policy has been adopted in the current year. Additionally the Group has adopted UITF17 (revised 2003) 'Employee share schemes', and UITF38 'Accounting for ESOP trusts', in these accounts. The adoption of these policies represents a change in accounting policy and the comparative figures have been restated accordingly. The impact of the adoption of the new policy on development expenditure is shown under the 'Research and Development' accounting policy note below. The adoption of UITF17 and UITF38 had no impact on the profit reported in either period.

Basis of Consolidation

The Group financial statements consolidate the financial statements of the Company and all subsidiaries for the financial year ended 31 December 2004. 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.

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. Revenue is recognised when the earnings process is complete which occurs when the products are shipped to the customer, title and risk of loss have been transferred, and collection is probable. An appropriate proportion of total long term contract value, based on the fair value of work performed, is included in turnover and an appropriate 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 acquired. 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.

Research and Development

Research and development expenditure is expensed as incurred, with the exception of development expenditure on projects that are undertaken where the related expenditure is separately identifiable and management are satisfied as to the ultimate commercial viability of the project based on all relevant available information. In such cases, the expenditure is capitalised as development expenditure within intangible fixed assets and written off over the periods expected to benefit, typically up to 10 years, commencing with the launch of the product. Development expenditure is reviewed annually for impairment.

This represents a change of accounting policy for the Group as previously all development expenditure was expensed as incurred. Following the acquisition of the Dunlop business during the year the directors consider the revised accounting policy for development expenditure to be the most appropriate for the enlarged Group.

The cumulative effect of this change has been recognised in the accounts as a prior year adjustment and comparative figures for 2003 have been restated. The effect on continuing operations of implementing this new accounting policy was to increase operating profit for the year by £3,379,000 (2003: £2,330,000) and to increase the tax charge by £1,134,000 (2003: £797,000). The increase to the value of the Group's reserves at 1 January 2004 was £3,727,000 (2003: £2,194,000) represented by an increase to intangible fixed assets of £5,262,000 (2003: £2,932,000) and the provision for deferred tax of £1,535,000 (2003: £738,000).

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
Furnaces	up to 20 years
Fixtures and fittings	3 to 10 years
Motor vehicles	4 to 5 years

1. Accounting Policies continued

Investments

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.

Other investments are stated at cost less provision for impairment in value.

Stocks

Stocks and work in progress are valued using the first-in-first-out ("FIFO") principle 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, and for unrealised profits on items of intra-group manufacture.

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 Costs

Deferred costs comprise costs incurred associated with Original Equipment Manufacturers ('OEMs') including the supply of initial manufactured parts, typically on a free of charge basis, onto new aircraft where the Group has obtained principal supplier status. Deferred costs are amortised over the periods expected to benefit (typically through the sale of replacement parts) from receiving the status of "principal supplier", generally over terms ranging from 3 to 10 years.

Deferred costs are reviewed annually for impairment.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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. 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.

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.

Employee Share Schemes

Shares in the Company are held by an independently managed Employee Share Ownership Trust ('ESOP Trust'), to meet future obligations in respect of the Company's employee share schemes.

The charge to the profit and loss account for awards made under the share schemes is calculated by reference to the intrinsic value of the award. The cost of own shares held by the ESOP Trust is deducted from shareholders' funds.

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

Capital Instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and otherwise are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate of charge based on the carrying amount.

The Group participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

2. Analysis of Turnover, Operating Profit and Assets

	2004 Continuing £'000	2004 Acquisitions £'000	2004 Total £'000	2003 Restated Total £'000
Turnover by Segment				
Aerospace	290,398	48,952	339,350	275,506
Defence Systems	68,949	–	68,949	52,030
Electronics	70,737	147	70,884	71,235
Continuing	430,084	49,099	479,183	398,771
Discontinued	–	–	–	3,670
	430,084	49,099	479,183	402,441
	By origin		By destination	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Turnover by Country				
UK	138,231	109,056	76,727	60,230
Rest of Europe	61,252	54,823	101,032	92,605
North America	276,243	238,562	254,076	209,761
Rest of World	3,457	–	47,348	39,845
	479,183	402,441	479,183	402,441
	2004 Continuing £'000	2004 Acquisitions £'000	2004 Exceptional costs £'000	2004 Total £'000
Operating Profit by Segment				
Aerospace	66,480	10,862	(4,206)	73,136
Defence Systems	12,195	–	–	12,195
Electronics	11,089	(6)	(3,673)	7,410
Goodwill amortisation	(19,262)	(5,719)	–	(24,981)
Continuing	70,502	5,137	(7,879)	67,760
Discontinued	–	–	–	–
	70,502	5,137	(7,879)	67,760
	2004 Continuing £'000	2004 Acquisitions £'000	2004 Total £'000	2003 Restated Total £'000
Operating Assets by Segment				
Aerospace	95,503	104,787	200,290	96,788
Defence Systems	12,818	1,139	13,957	16,734
Electronics	15,664	1,408	17,072	13,908
Unallocated	(5,875)	–	(5,875)	(6,528)
	118,110	107,334	225,444	120,902

2. Analysis of Turnover, Operating Profit and Assets continued

	2004 Continuing £'000	2004 Acquisitions £'000	2004 Exceptional costs £'000	2004 Total £'000	2003 Restated Total £'000
Operating Profit by Country of Origin					
UK	10,014	4,951	(3,994)	10,971	9,096
Rest of Europe	9,134	46	(92)	9,088	6,729
North America	51,356	(372)	(3,033)	47,951	50,014
Rest of World	(2)	512	(760)	(250)	(3)
	70,502	5,137	(7,879)	67,760	65,836
	2004 Continuing £'000	2004 Acquisitions £'000	2004 Total £'000	2003 Restated Total £'000	
Operating Assets by Country of Origin					
UK	39,007	97,187	136,194	33,174	
Rest of Europe	28,474	1,118	29,592	28,868	
North America	50,032	8,853	58,885	58,852	
Rest of World	597	176	773	8	
	118,110	107,334	225,444	120,902	
	2004 £'000	2003 Restated £'000			
Reconciliation of Operating Assets to Net Assets					
Operating assets	225,444	120,902			
Investments	1,075	1,075			
Goodwill	610,045	318,877			
Proposed dividend	(20,623)	(15,057)			
Net debt	(328,205)	(140,526)			
Accrued interest	(982)	222			
Tax balances	(21,759)	(14,369)			
Net assets	464,995	271,124			

Items appearing in the consolidated profit and loss account below operating profit before goodwill amortisation are not analysed by class of business or geographical segment, as this is not practicable.

Due to the increased significance of the defence systems businesses these activities have been disclosed as a separate business segment. Previously the defence systems businesses formed part of the aerospace segment. Comparative figures have been restated accordingly.

The 2003 segmental analysis is restated to reflect the change in accounting policy for development expenditure. The change increased segmental operating profits as follows: Aerospace £2,004,000; Defence Systems £159,000; Electronics £167,000; and segmental net assets as follows: Aerospace £4,936,000; Defence Systems £159,000; Electronics £167,000. The geographical segment impact for operating profit was: UK £1,498,000; Rest of Europe (£77,000); North America £909,000; and segmental net assets: UK £3,030,000; Rest of Europe £1,044,000; North America £1,188,000.

Turnover derived from intra-segmental transactions is not material.

3. Note to the Profit and Loss Account

	2004 Continuing £'000	2004 Acquisitions £'000	2004 Exceptional costs £'000	2004 Total £'000	2003 Continuing Restated £'000	2003 Acquisitions £'000	2003 Discontinued £'000	2003 Total Restated £'000
Turnover	430,084	49,099	–	479,183	375,392	23,379	3,670	402,441
Cost of sales	(233,634)	(27,597)	–	(261,231)	(202,708)	(14,482)	(2,689)	(219,879)
Net operating expenses:								
Distribution costs	(32,704)	(2,134)	–	(34,838)	(29,625)	(1,124)	(398)	(31,147)
Research and development:								
Expenditure	(19,128)	(3,512)	–	(22,640)	(15,605)	(280)	(180)	(16,065)
Amortisation of development costs	(489)	(565)	–	(1,054)	(1,593)	–	–	(1,593)
Amortisation of goodwill	(19,262)	(5,719)	–	(24,981)	(18,862)	(1,323)	–	(20,185)
Other administration expenses	(54,678)	(5,327)	(7,879)	(67,884)	(45,057)	(2,587)	(441)	(48,085)
Administration expenses	(93,557)	(15,123)	(7,879)	(116,559)	(81,117)	(4,190)	(621)	(85,928)
Other operating income	313	892	–	1,205	345	4	–	349
	(125,948)	(16,365)	(7,879)	(150,192)	(110,397)	(5,310)	(1,019)	(116,726)
Operating profit/(loss)	70,502	5,137	(7,879)	67,760	62,287	3,587	(38)	65,836

4. Operating Profit

	2004 £'000	2003 Restated £'000
Operating profit is stated after crediting:		
Rents receivable	742	720
Profit on disposal of fixed assets	–	15
And after charging:		
Depreciation of tangible fixed assets	12,985	10,162
Amortisation of intangible fixed assets	26,435	22,400
Amortisation of deferred costs	833	–
Loss on disposal of fixed assets	57	–
Auditors' remuneration	669	955
Hire of plant and machinery	348	174
Other operating lease rentals	6,076	5,539
Payable to PricewaterhouseCoopers LLP and network firms:		
Audit Services : statutory audit: Company	77	65
: statutory audit: Group	485	415
: other audit related reporting: overseas	69	47
Other services : other: UK	38	5
	669	532

In addition to the above services, the Group's auditor acted as auditor to the Meggitt Group 1990 Pension Plan (1990 Plan) and the Meggitt Executive Pension Plan (MEPP). The appointment of auditors to these Group pension schemes and the fees paid in respect of those audits are agreed by the trustees of each scheme, who act independently from the management of the Group. The aggregate fees paid to the Group's auditor for audit services to these pension schemes during the year was £24,000 (2003: £23,000).

In addition to the amounts disclosed above, fees paid to PricewaterhouseCoopers LLP of £1,475,000 have been capitalised within acquisition costs of businesses acquired during the year.

Audit fees payable to PricewaterhouseCoopers LLP of £106,000 were charged in the accounts of the acquired Dunlop businesses during the period prior to their acquisition by Meggitt. Therefore total audit fees payable to PricewaterhouseCoopers LLP in respect of the audit for the 2004 year is £668,000.

During 2003 Meggitt PLC changed its auditors from Deloitte & Touche to PricewaterhouseCoopers LLP. Prior to the date of their resignation Deloitte & Touche received fees for non-audit services totalling £423,000 of which £413,000 was in respect of tax advisory services (UK: £123,000; Overseas: £290,000) and £10,000 of other services (UK: £nil; Overseas: £10,000). There were no audit fees payable to Deloitte & Touche for 2003.

5. Exceptional Items

Exceptional operating costs

The exceptional charge of £3,673,000 within continuing activities relates to the closure of the Group's manufacturing facilities in the US Virgin Islands and the relocation of production to a new facility in China. Expenditure incurred in the year amounted to £2,599,000.

The exceptional charge of £4,206,000 within acquired activities relates to Dunlop Aerospace reorganisation costs and the consolidation of Meggitt's polymers manufacturing operations into Dunlop facilities in the Midlands. Expenditure incurred in the year amounted to £489,000.

In each case the costs incurred relate to the vacation of premises, the removal of equipment and facilities and redundancy costs.

The tax credit in respect of the exceptional operating costs was £1,737,000.

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. Other business asset and investment sales during 2003 gave rise to a net profit, after making appropriate sale provisions, of £3,000.

No tax credit is available in respect of the exceptional loss in 2003.

6. Information Regarding Employees

	2004 £'000	2003 £'000
Employee costs during the year including executive directors:		
Wages and salaries	140,648	110,048
Social security costs	19,430	16,504
Other pension costs (see note 33)	11,984	10,105
Total direct costs of employment	172,062	136,657
Average monthly number of persons employed including executive directors:		
Production	3,577	2,806
Selling and distribution	389	345
Administration	458	331
	4,424	3,482

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 31 which constitutes part of these financial statements.

8. Interest Payable (net)

	2004 £'000	2003 £'000
Interest receivable and similar income:		
Interest on bank deposits	673	462
Other income	421	404
	1,094	866
Interest payable and similar charges:		
Bank loans, overdrafts and other loans repayable within five years:		
Repayable by instalments	(339)	(39)
Repayable other than by instalments	(3,606)	(4,148)
Senior Notes	(7,356)	(4,066)
Other interest	(944)	(787)
	(12,245)	(9,040)
Interest payable (net)	(11,151)	(8,174)

FRS 12 requires provisions to be discounted to reflect the time value of money (see note 21). Included within other interest is a discount charge of £529,000 (2003: £235,000).

9. Tax on Profit on Ordinary Activities

	2004 £'000	2003 Restated £'000
Current tax:		
UK corporation tax at 30% (2003 – 30%)	13,329	18,285
Adjustment in respect of prior years	(2,086)	–
Double taxation relief	(13,329)	(16,678)
Foreign tax	20,223	19,926
Adjustment in respect of prior years	(794)	(36)
Total current tax charge	17,343	21,497
Deferred tax:		
Origination and reversal of timing differences	4,089	1,079
Adjustment in respect of prior years	599	(679)
Total deferred tax charge	4,688	400
Tax on profit on ordinary activities	22,031	21,897

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:

	2004 £'000	2003 Restated £'000
Profit on ordinary activities before taxation at average standard tax rate of 35.6% (2003: 35.2%)	20,164	15,585
Goodwill amortisation	7,512	6,363
Permanent differences	176	5,732
Timing differences	(5,093)	(2,931)
Tax credits and incentives	(2,536)	(3,216)
Prior year credit	(2,880)	(36)
Total current tax charge	17,343	21,497

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 £52,755,000 (2003: £14,335,000) 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.

11. Dividends

	2004 £'000	2003 £'000
Dividends in respect of previous years	20	17
Interim of 2.20p per share paid (2003: 2.09p per share*)	9,416	7,039
Final of 4.80p per share proposed (2003: 4.44p per share*)	20,623	15,057
	30,059	22,113

Dividends amounting to £5,000 (2003: £13,000) in respect of the Company's shares held by an independently managed Employee Share Ownership Plan (see note 25) have been deducted in arriving at the aggregate of dividends paid and proposed.

* Adjusted to reflect the bonus element of the rights issue approved by shareholders on 21 July 2004.

12. Earnings per Ordinary Share

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

	2004 £'000	2004 Number ('000)	2004 Pence	2003 Restated £'000	2003 Number Restated ('000)	2003 Restated Pence
Basic EPS						
Profit attributable to ordinary shareholders	34,578	379,011	9.1	22,431	335,061	6.7
ESOP	–	(39)	–	–	(165)	–
	34,578	378,972	9.1	22,431	334,896	6.7
Effect of dilutive potential ordinary shares						
Options	–	1,803	–	–	1,404	–
Diluted EPS						
Profit attributable to ordinary shareholders	34,578	380,775	9.1	22,431	336,300	6.7

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:

	2004 £'000	2004 Number ('000)	2004 Pence	2003 Restated £'000	2003 Number Restated ('000)	2003 Restated Pence
Basic EPS						
Profit attributable to ordinary shareholders	34,578	379,011	9.1	22,431	335,061	6.7
ESOP	–	(39)	–	–	(165)	–
	34,578	378,972	9.1	22,431	334,896	6.7
Add back:						
Amortisation of goodwill	24,981		6.6	20,185		6.0
Tax benefit on goodwill amortisation	(1,055)		(0.3)	(1,164)		(0.3)
Exceptional costs:						
– loss on disposal of discontinued operations	–		–	13,334		4.0
Earnings per share IIMR basis	58,504	378,972	15.4	54,786	334,896	16.4

13. Intangible Fixed Assets

	Goodwill £'000	Development expenditure £'000	Licences, patents and trademarks £'000	Total £'000
Cost at 1 January 2004 as previously reported	389,596	–	3,087	392,683
Prior year adjustment (see note 1)	–	6,855	–	6,855
Cost at 1 January 2004 as restated	389,596	6,855	3,087	399,538
Exchange rate adjustments	(21,187)	(64)	11	(21,240)
Businesses acquired (see note 31)	333,535	15,964	38	349,537
Additions	–	5,010	22	5,032
Cost at 31 December 2004	701,944	27,765	3,158	732,867
Amortisation at 1 January as previously reported	70,719	–	2,450	73,169
Prior year adjustment (see note 1)	–	1,593	–	1,593
Amortisation at 1 January 2004 as restated	70,719	1,593	2,450	74,762
Exchange rate adjustments	(3,801)	41	21	(3,739)
Businesses acquired (see note 31)	–	6,574	2	6,576
Charge for the year	24,981	1,054	400	26,435
Amortisation at 31 December 2004	91,899	9,262	2,873	104,034
Net book amount at 31 December 2004	610,045	18,503	285	628,833
Net book amount at 31 December 2003	318,877	5,262	637	324,776

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 2004	40,027	110,884	150,911	245	1,626	1,871
Exchange rate adjustments	(684)	(3,792)	(4,476)	–	–	–
Businesses acquired (see note 31)	33,384	117,660	151,044	–	–	–
Additions	1,834	12,396	14,230	–	159	159
Disposals	(285)	(4,616)	(4,901)	–	(79)	(79)
Cost or valuation at 31 December 2004	74,276	232,532	306,808	245	1,706	1,951
At valuation	217	–	217	–	–	–
At cost	74,059	232,532	306,591	245	1,706	1,951
Accumulated depreciation at 1 January 2004	17,805	79,794	97,599	110	1,168	1,278
Exchange rate adjustments	(314)	(2,823)	(3,137)	–	–	–
Businesses acquired (see note 31)	2,158	88,800	90,958	–	–	–
Charge for year	1,233	11,752	12,985	7	96	103
Disposals	(267)	(4,385)	(4,652)	–	(58)	(58)
Accumulated depreciation at 31 December 2004	20,615	173,138	193,753	117	1,206	1,323
Net book amount at 31 December 2004	53,661	59,394	113,055	128	500	628
Net book amount at 31 December 2003	22,222	31,090	53,312	135	458	593

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Net book amount of land and buildings				
Freehold	49,608	18,226	86	89
Long leasehold	1,226	1,010	–	–
Short leasehold	2,827	2,986	42	46
	53,661	22,222	128	135

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 £74,201,000 (2003: £39,952,000) less depreciation of £20,594,000 (2003: £17,785,000) giving a net book amount of £53,607,000 (2003: £22,167,000).

15. Investments Held as Fixed Assets

	Group		Company	
	2004 £'000	2003 Restated £'000	2004 £'000	2003 £'000
Shares in subsidiaries a)	–	–	163,141	152,395
Other investments b)	1,075	1,075	–	–
	1,075	1,075	163,141	152,395
a) Shares in subsidiaries				
At 1 January 2004	–	–	152,395	152,549
Additions	–	–	10,746	–
Provision for impairment in value	–	–	–	(154)
At 31 December 2004	–	–	163,141	152,395
b) Other investments at cost				
At 1 January and 31 December 2004	1,075	1,075	–	–

At 31 December 2004 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.

The adoption of UITF38 has resulted in the presentation of shares in the ESOP trust as a deduction in arriving at shareholders' funds (see note 25) and accordingly comparative data has been restated.

16. Stocks

	Group	
	2004 £'000	2003 £'000
Long term contract balances	5,794	3,851
Applicable payments on account	(3,544)	(2,569)
	2,250	1,282
Raw materials and bought-in components	44,098	35,409
Manufacturing work in progress	34,765	25,538
Finished goods and goods for resale	25,238	11,310
	106,351	73,539

17. Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year				
Trade debtors	91,821	75,001	1	3
Amounts recoverable on contracts	2,755	3,134	–	–
Amounts owed by Group companies	–	–	915,976	293,793
Other debtors	14,927	12,164	206	652
Prepayments and accrued income	3,294	2,914	176	1,092
Deferred costs	2,496	–	–	–
Tax recoverable	106	164	–	–
Deferred tax	6,436	4,579	–	–
	121,835	97,956	916,359	295,540
Amounts falling due after more than one year				
Trade debtors	46	150	–	–
Other debtors	26,689	21,651	1,247	1,664
Deferred costs	25,945	–	–	–
Deferred tax	1,756	2,542	–	–
	54,436	24,343	1,247	1,664
	176,271	122,299	917,606	297,204

Other debtors in total includes £22,989,000 (2003: £19,454,000) 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 £4,115,000 (2003: £4,413,000) is shown as falling due within one year.

Other debtors also includes £300,000 (2003: £650,000) 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 25). 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	27.03.02	£337,560	197,646
	14.04.03	£916,320	507,970

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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans and overdrafts (see note 19)	5,072	7,334	4,683	7,334
Other loans (see note 19)	842	455	–	–
Payments received on account	6,209	8,608	–	–
Obligations under finance leases and hire purchase contracts (see note 19)	–	2	–	–
Trade creditors	52,219	29,832	285	242
Amounts owed to Group companies	–	–	244,605	43,964
UK corporation tax payable	11,265	10,612	9,386	7,791
Overseas tax	4,951	6,518	–	–
Taxation and social security	3,473	1,821	790	717
Other creditors	47,921	29,687	1,109	1,129
Accruals	8,541	7,225	2,559	2,087
Proposed dividend	20,623	15,057	20,623	15,057
	161,116	117,151	284,040	78,321

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

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Obligations under finance leases and hire purchase contracts	–	3	–	–
Bank loans	231,037	13,407	231,037	13,407
Other loans	135,205	141,995	129,589	139,657
Trade creditors	53	135	–	–
Other creditors	11,374	3,655	–	–
	377,669	159,195	360,626	153,064
Analysis of bank loans and overdrafts repayable:				
in one year or less	5,072	7,334	4,683	7,334
in more than two years but not more than five years	231,037	13,407	231,037	13,407
	236,109	20,741	235,720	20,741
Analysis of other loans repayable:				
in one year or less	842	455	–	–
in more than one year but not more than two years	613	530	–	–
in more than two years but not more than five years	2,742	1,602	–	–
in more than five years	131,850	139,863	129,589	139,657
	136,047	142,450	129,589	139,657
Analysis of finance lease and hire purchase obligations repayable:				
in one year or less	–	2	–	–
in more than one year but not more than two years	–	3	–	–
	–	5	–	–

The Company entered into a \$680 million, five year, unsecured multi-currency revolving credit facility during the year. At 31 December 2004 the amounts drawn under this facility were £117 million and \$196 million.

Loans are stated after deduction of unamortised debt issue costs.

There are no secured loans.

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 financial assets and financial liabilities.

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:

	Floating 2004 £'000	Fixed 2004 £'000	Non interest bearing 2004 £'000	Total 2004 £'000	Fixed rate borrowings Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	82,545	36,517	–	119,062	4.7	3.2
US dollars	167,402	65,108	–	232,510	5.4	8.4
Swiss francs	17,592	–	–	17,592		
Euro	–	–	4,629	4,629		
	267,539	101,625	4,629	373,793		

The weighted average period to maturity for non interest bearing financial liabilities is 3.3 years.

The amounts disclosed above are shown gross of unamortised debt issue costs of £1,637,000.

	Floating 2003 £'000	Fixed 2003 £'000	Non interest bearing 2003 £'000	Total 2003 £'000	Fixed rate borrowings Weighted average interest rate %	Weighted average period 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		

The weighted average period to maturity for non interest bearing financial liabilities is 3.1 years.

In addition to the above, the Group's provisions of £2,077,000 (2003: £2,686,000) for onerous lease costs (see note 21) meet the definition of financial liabilities. These financial liabilities are considered to be floating rate financial liabilities. This is because in establishing the provisions, the cash flows have been discounted and the discount rate is re-appraised on a regular basis to ensure it reflects the market assessments of the time value of money and the risks specific to the liability.

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 2004 £'000	Non interest bearing 2004 £'000	Total 2004 £'000	Floating 2003 £'000	Non interest bearing 2003 £'000	Total 2003 £'000
Sterling	4,927	1,075	6,002	22,769	1,084	23,853
US dollars	31,227	–	31,227	14,905	15	14,920
Swiss francs	1,542	–	1,542	1,136	14	1,150
Euro	7,872	–	7,872	5,621	7	5,628
Other	(1,617)	–	(1,617)	442	–	442
	43,951	1,075	45,026	44,873	1,120	45,993

The non interest bearing financial asset relates to the Group's trade investment (see note 15). Other in 2004 represents a Canadian Dollar overdraft balance which has the right of set-off with certain other financial asset balances held by the Group.

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.

20. Financial Instruments continued

iii) Committed Facilities

The Group had the following committed facilities:

	Drawn £'000	2004 Undrawn £'000	Total £'000	Drawn £'000	2003 Undrawn £'000	Total £'000
\$250m Senior Notes	130,215	–	130,215	139,657	–	139,657
Syndicated credit facility	219,140	135,045	354,185	–	125,691	125,691
Bilateral credit facilities	–	–	–	13,407	28,490	41,897
	349,355	135,045	484,400	153,064	154,181	307,245

The committed facilities outstanding at 31 December 2004 and 2003 all expire more than two years from the balance sheet date.

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.

Assets/(liabilities)	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Cash at bank and in hand	43,951	43,951	22,670	22,670
Investments	1,075	1,075	1,075	1,075
Borrowings due within one year	(5,914)	(5,914)	(7,791)	(7,791)
Borrowings due after more than one year	(367,879)	(368,774)	(155,405)	(155,405)
Other financial liabilities – onerous lease costs	(2,077)	(2,077)	(2,686)	(2,686)
Interest rate derivatives	–	378	–	(3,080)
Foreign exchange derivatives	–	5,556	–	3,024

The amounts disclosed above are shown gross of unamortised debt issue costs of £1,637,000.

For cash at bank and in hand, investments and short-term borrowings, the fair value approximates to the carrying value due to the short maturity periods of these financial instruments. For medium and long-term borrowings and other financial liabilities the fair value is based on market values or, where not available, on discounting future cash flows at prevailing market rates. Market rates have been used to determine the fair values of the interest rate and foreign exchange derivatives.

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 2004	3,171	(3,227)	(56)
Less: gains and losses arising in previous years that were recognised in the year	3,171	(2,434)	737
Gains and losses arising before 1 January 2004 that were not recognised at 31 December 2004	–	(793)	(793)
Gains and losses arising in the year that were not recognised at 31 December 2004	6,027	700	6,727
Unrecognised gains and losses on hedges at 31 December 2004	6,027	(93)	5,934
Of which:			
Gains and losses expected to be recognised in 2005	4,610	(45)	4,565
Gains and losses expected to be recognised in 2006 or later	1,417	(48)	1,369

21. Provisions for Liabilities and Charges

Group	Environmental & litigation (a) £'000	Onerous lease costs (b) £'000	Warranty costs (c) £'000	Deferred tax (see note 22) £'000	Group total £'000
Balance at 1 January 2004 as previously reported	36,340	2,686	6,651	2,989	48,666
Prior year adjustment (d)	–	–	–	1,535	1,535
Balance at 1 January 2004 as restated	36,340	2,686	6,651	4,524	50,201
Exchange rate adjustments	(2,577)	(68)	(181)	(166)	(2,992)
Businesses acquired (see note 31)	–	–	2,867	2,784	5,651
Charge to profit and loss account	17,853	52	2,884	6,699	27,488
Utilised	(10,695)	(696)	(3,730)	–	(15,121)
Interest movement	426	103	–	–	529
Balance at 31 December 2004	41,347	2,077	8,491	13,841	65,756

Company	Environmental & litigation (a) £'000	Onerous lease costs (b) £'000	Warranty costs (c) £'000	Deferred tax (see note 22) £'000	Company total £'000
Balance at 1 January 2004	–	–	–	–	–
Charge to profit and loss account	–	264	–	248	512
Balance at 31 December 2004	–	264	–	248	512

- a) Provision has been made for the probable exposures arising from environmental matters and legal proceedings in a number of 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 £22,989,000 (2003: £19,454,000) has been recognised as a debtor for the amounts recoverable from the insurers (see note 17). 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 mainly utilised over the next 10 years.
- b) Provision has been set up for the estimated rental shortfall in respect of properties with onerous lease obligations and will be utilised over the lease terms typically up to ten years.
- c) Provision has been made for product warranty claims. These provisions are expected to be utilised over the next three years.
- d) Provision for deferred tax has been made on the unamortised development expenditure as at 1 January 2004.

22. Deferred Tax

Movement on net deferred tax balances:

	Group £'000	Company £'000
Net balance at 1 January 2004 as previously reported	(4,132)	–
Prior year adjustment (see note 21)	1,535	–
Net balance at 1 January 2004 as restated	(2,597)	–
Exchange rate adjustments	124	–
Businesses acquired (see note 21)	2,784	–
Charged to profit and loss account	4,688	248
Reclassifications	650	–
Net balance at 31 December 2004	5,649	248
Disclosed as:		
Debtors falling due within one year	(6,436)	–
Debtors falling due after more than one year	(1,756)	–
Provision for deferred tax payable	13,841	248
Net deferred tax creditor	5,649	248

	Group		Company	
	2004 £'000	2003 Restated £'000	2004 £'000	2003 £'000
Accelerated capital allowances	10,026	37	(43)	–
Provisions	(1,266)	(6,722)	–	–
Other timing differences	(3,111)	4,088	291	–
Net balance	5,649	(2,597)	248	–

22. Deferred Tax continued

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 unrecognised deferred tax assets of £19 million (2003: £11 million). The majority of these timing differences relate to the Group's operations in the USA and pre-acquisition losses in the acquired Dunlop businesses. Deferred tax 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 tax assets not recognised would be recoverable in the event that they reverse and suitable taxable profits are available.

23. Called Up Share Capital

	2004 £'000	2003 £'000
Ordinary shares of 5p each		
Authorised: 640,000,000 shares (2003: 374,000,000)	32,000	18,700

	No of shares	Nominal value £'000	Net consideration £'000
Allotted and fully paid:			
Balance at 1 January 2004	295,225,726	14,761	
Rights issue	128,269,406	6,413	180,436
Issued on exercise of executive share options	1,416,288	71	2,247
Issued on exercise of SAYE share options	142,155	7	234
Scrip dividends	4,577,903	229	10,964
Balance at 31 December 2004	429,631,478	21,481	

Year of grant	No of ordinary shares under option	Exercise price per share	Exercise period	
			From	To
i) Meggitt 1998 Sharesave Scheme:				
1998	72,218	133.79p	01.10.05	31.03.06
2000	150,985	147.48p	01.01.06	30.06.06
2000	49,316	147.48p	01.01.08	30.06.08
2002	179,980	127.98p	01.01.06	30.06.06
2002	264,010	127.98p	01.01.08	30.06.08
2002	44,524	127.98p	01.01.10	30.06.10
ii) Meggitt 1996 No 1 Executive Share Option Scheme:				
1997	8,125	101.52p	27.03.00	26.03.07
1997	17,411	115.00p	25.09.00	24.09.07
1998	63,645	151.22p	20.04.01	19.04.08
1998	6,227*	101.94p	25.09.01	24.09.08
1999	68,515	157.58p	01.10.02	30.09.09
2000	50,016	189.36p	14.12.03	13.12.10
2002	61,085	159.76p	17.10.05	16.10.12
2003	93,857	209.38p	02.10.06	01.10.13
2004	14,725	203.72p	01.04.07	31.03.14
2004	43,485	246.00p	06.10.07	05.10.14
iii) Meggitt 1996 No 2 Executive Share Option Scheme:				
1998	17,803*	101.94p	25.09.01	24.09.05
1999	459,805	157.58p	01.10.02	30.09.06
2000	713,894	189.36p	14.12.03	13.12.07
2001	1,387,181	133.20p	27.09.04	26.09.08
2002	1,656,729	159.76p	17.10.05	16.10.09
2003	1,695,750	209.38p	02.10.06	01.10.10
2004	211,074	203.72p	01.04.07	31.03.11
2004	1,755,865	246.00p	06.10.07	05.10.11

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 25.

Numbers of shares and prices above have been adjusted to reflect the bonus element of the rights issue approved by shareholders on 21 July 2004.

24. Reconciliation of Movements in Group Shareholders' Funds

	2004 £'000	2003 Restated £'000
Opening shareholders' funds as previously reported	267,461	257,488
Prior year adjustments:		
Development expenditure (see note 1)	3,727	2,194
UITF38 (see note 25)	(64)	(326)
Opening shareholders' funds as restated	271,124	259,356
Profit for the financial year	34,578	22,431
Dividends	(30,059)	(22,113)
Other recognised losses relating to the year	(4,554)	(13,051)
New share capital subscribed (net of costs)	193,881	10,510
Adjustment in respect of employee share schemes	25	262
Goodwill transferred to profit and loss account on disposal	–	13,729
Net increase in shareholders' funds	193,871	11,768
Closing shareholders' funds	464,995	271,124

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 2004 as previously reported	14,761	155,475	55	14,064	83,106	267,461
Prior year adjustments:						
Development expenditure (see note 1)	–	–	–	–	3,727	3,727
UITF38	–	–	–	–	(64)	(64)
Balance at 1 January 2004 as restated	14,761	155,475	55	14,064	86,769	271,124
Retained profit for the financial year	–	–	–	–	4,519	4,519
Foreign currency translation adjustments	–	–	–	–	(4,554)	(4,554)
Additional depreciation on revalued assets	–	–	(1)	–	1	–
Adjustment in respect of employee share schemes	–	–	–	–	25	25
Issue of shares in connection with rights issue	6,413	174,023	–	–	–	180,436
Issue of shares in connection with the exercise of executive share options, SAYE share options and scrip dividend	307	13,138	–	–	–	13,445
Balance at 31 December 2004	21,481	342,636	54	14,064	86,760	464,995
Company						
Balance at 1 January 2004	14,761	155,475	–	17,556	34,398	222,190
Retained profit for the financial year	–	–	–	–	22,691	22,691
Issue of shares in connection with rights issue	6,413	174,023	–	–	–	180,436
Issue of shares in connection with the exercise of executive share options, SAYE share options and scrip dividend	307	13,138	–	–	–	13,445
Balance at 31 December 2004	21,481	342,636	–	17,556	57,089	438,762

The cumulative amount of goodwill written off to reserves at 31 December 2004 was £49.7 million (2003: £49.7 million) arising in respect of acquisitions prior to 1 January 1998.

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 31.

At 31 December 2004 the trust held 93,747 ordinary shares (2003: 58,135 shares) of which 24,030 were allocated to the Meggitt 1996 Executive Share Option Schemes (2003: 42,635 shares) and 69,717 were unallocated (2003: 15,500) being retained by the trust for future use. The market value of the shares at 31 December 2004 was £245,000 (2003: £137,000) representing 0.02% of the issued share capital of the Company (2003: 0.02%). 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).

The adoption of UITF38 has resulted in the presentation of shares in the ESOP trust as a deduction in arriving at shareholders' funds and has led to a decrease in shareholders' funds. The shares were purchased in prior years and have a cost of £39,000 at 31 December 2004 (2003: £64,000).

The re-presentation of the ESOP shares as a deduction from the profit and loss account in accordance with UITF38 is not a recognised gain or loss.

26. Commitments

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Capital Commitments				
Contracted for but not provided	2,547	3,015	107	35

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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Land and buildings:				
Expiring in one year or less	657	380	–	–
Expiring in more than one year but not more than two years	265	781	13	–
Expiring in more than two years but not more than five years	909	776	–	56
Expiring in more than five years	4,645	4,052	176	–
	6,476	5,989	189	56
Other assets:				
Expiring in one year or less	119	21	–	–
Expiring in more than one year but not more than two years	155	65	–	–
Expiring in more than two years but not more than five years	139	132	–	–
	413	218	–	–

Other Financial Commitments

The Group enters into long-term arrangements with Aircraft and/or Original Equipment Manufacturers ('OEMs') to design, develop and supply products to them for the life of the aircraft. This represents a significant long term financial commitment for the Group and requires the consideration of a number of uncertainties including the feasibility of the product/solution and the ultimate commercial viability over a period which can extend over 40 years.

The directors are satisfied that, at this time, there are no significant contingent liabilities arising from these commitments.

27. Reconciliation of Operating Profit to Operating Cash Flow

	2004 £'000	2003 Restated £'000
Operating profit	67,760	65,836
Depreciation and amortisation	40,253	32,562
Change in stocks	(11,866)	3,237
Change in debtors	1,266	(10,192)
Change in creditors	10,454	(5,846)
Loss/(Profit) on disposal of fixed assets	57	(15)
Cash inflow from operating activities	107,924	85,582

28. Major Non-Cash Transactions

During the year Meggitt PLC issued 4,577,903 shares worth £10,964,000 in respect of scrip dividends (2003: 4,603,117 shares worth £8,634,000).

29. Analysis of Net Debt

	At 1 January 2004 £'000	Cash flow £'000	Exchange differences £'000	Acquisition of businesses £'000	Other non-cash movements £'000	At 31 December 2004 £'000
Cash	22,670	19,828	1,453	–	–	43,951
Overdrafts	–	(389)	–	–	–	(389)
Net cash	22,670	19,439	1,453	–	–	43,562
Debt due within one year	(7,791)	3,234	549	(1,517)	–	(5,525)
Debt due after one year	(155,405)	(227,697)	14,913	–	1,947	(366,242)
Net debt	(140,526)	(205,024)	16,915	(1,517)	1,947	(328,205)

Other non-cash movements represent the net change in deferred debt issue costs during the year.

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

	2004 £'000	2003 £'000
Increase/(Decrease) in cash in the year	19,439	(4,356)
Increase in debt financing	(224,463)	(12,176)
Change in net debt resulting from cash flows	(205,024)	(16,532)
On acquisition of businesses	(1,517)	11
Other non-cash movements	1,947	–
Exchange differences	16,915	15,673
Movement in net debt in the year	(187,679)	(848)
Net debt at 1 January	(140,526)	(139,678)
Net debt at 31 December	(328,205)	(140,526)

31. Acquisitions

Acquisitions completed during 2004 were as follows:

August	Design and Manufacturing Division of Dunlop Standard Aerospace Group Limited for total consideration of £426.8 million paid in cash.
December	Three businesses for total combined consideration of £14.3 million paid in cash: Wilcoxon Research US Inc.; Schreiner Canada Limited; and from Eaton Aerospace LLC the assets and business of certain flight-lock actuators for Boeing aircraft.

The acquisitions were accounted for using the acquisition method.

The impact on the net assets of acquisitions made in 2004, together with amendments made to the fair values of acquisitions made in 2003, is shown below:

	2004 Acquisitions £'000	2003 Fair value revisions £'000	Total reported in 2004 £'000
Net assets acquired:			
Intangible fixed assets	9,426	–	9,426
Tangible fixed assets	60,067	19	60,086
Stocks	24,513	(99)	24,414
Debtors	58,825	6	58,831
Creditors: Amounts falling due within one year	(36,254)	(13)	(36,267)
Creditors: Amounts falling due after more than one year	(10,841)	–	(10,841)
Provisions for liabilities	(5,857)	206	(5,651)
Net cash	6,914	–	6,914
Total	106,793	119	106,912

Consideration

Analysis of the net outflow of cash in respect of acquisitions:

	2004 £'000	2003 £'000
Cash consideration paid including costs	440,447	60,454
Net outflow of cash and cash equivalents for acquisitions	433,533	60,443

Dependent on whether certain technical solutions are developed by the acquired Dunlop business within an agreed timeframe the purchase price may be adjusted downwards by an amount not exceeding £12.5 million. Any adjustment to the purchase price will be reflected in 2005.

Goodwill Arising

	2004 Acquisitions £'000	2003 Acquisition amendments £'000	2004 Total £'000
Consideration	441,087	(640)	440,447
Fair value of net assets acquired	(106,793)	(119)	(106,912)
Goodwill arising	334,294	(759)	333,535

31. Acquisitions continued

Acquisitions

Goodwill on acquisitions is based upon a provisional allocation of fair values comprised £322.9 million in respect of Dunlop, and £11.4 million in respect of Wilcoxon, Schreiner and the Eaton product lines.

Provisional fair value tables are shown separately below for Dunlop and the other acquisitions in aggregate:

Provisional fair value table - Dunlop:

	Note	Book value of net assets at date of Acquisition £'000	Accounting Policy Alignment £'000	Revaluations £'000	Fair value at date of Acquisition £'000
Intangible fixed assets – development expenditure	i	–	9,220	–	9,220
Tangible fixed assets	ii	80,984	(13,716)	(7,473)	59,795
Stocks	iii	25,509	(2,827)	–	22,682
Debtors		57,458	(553)	–	56,905
Creditors: Amounts falling due within one year	iv	(30,521)	(2,374)	(1,500)	(34,395)
Creditors: Amounts falling due after more than one year	v	(1,971)	–	(8,870)	(10,841)
Provisions for liabilities	vi	(11,703)	2,312	3,580	(5,811)
Net cash		6,345	–	–	6,345
Total		126,101	(7,938)	(14,263)	103,900
Consideration satisfied in cash					426,800
Goodwill on consolidation					322,900

- i) This adjustment brings Dunlop subsidiary accounts into line with its consolidated accounts, which capitalised certain development costs, a policy which has now been adopted by the enlarged Group.
- ii) Fixed assets have been adjusted to reflect the depreciation of plant and machinery over up to ten years and valued on a basis consistent with Meggitt Group policy.
- iii) Adjustments have been made to recognise provisions for slow moving and obsolete inventory on a consistent basis with Meggitt Group policy.
- iv) The accounting policy alignment includes the recognition of contract liabilities in accordance with Meggitt Group policy. The revaluation refers to the short term element of the pension deficit (see v below).
- v) In accordance with SSAP 24 the deficit existing on the defined benefit pension scheme at completion has been recognised as a liability in the Group accounts.
- vi) The adjustment relates to the recognition of deferred tax assets or reduction of existing deferred tax liabilities arising from the fair value adjustments noted above.

The unaudited non statutory information presented below for the seven months ended 31 July 2004 is stated using the accounting policies of Dunlop prior to acquisition. It is compiled from the management accounts of the acquired Dunlop businesses. The reported results for interest and tax have not been adjusted to exclude amounts included in the management accounts of the acquired Dunlop businesses which arose solely because of the financial structure of the Dunlop Standard Aerospace Group prior to acquisition.

	£'000
Turnover	74,020
Operating profit	19,068
Interest	(19,746)
Loss before taxation	(678)
Taxation	(4,606)
Loss for the period	(5,284)

The profit after taxation for Dunlop for the year ended 31 December 2003 (its previous financial year end) was £0.6 million stated using the accounting policies of Dunlop prior to acquisition.

It has not been practicable to produce a statement of total recognised gains and losses for Dunlop for the pre-acquisition period.

The post acquisition contribution of Dunlop to the Group consolidated cash flow is shown below:

	£'000
Cash inflow from operating activities	10,587
Returns on investment and servicing of finance	(4,653)
Taxation	–
Capital expenditure and financial investment	(3,347)
Cash inflow before corporate items	2,587

31. Acquisitions continued

Provisional fair value table - Others:

	Book value of net assets at date of Acquisition £'000	Accounting Policy Alignment £'000	Revaluations £'000	Fair value at date of Acquisition £'000
Intangible fixed assets	231	(25)	–	206
Tangible fixed assets	263	(13)	22	272
Stocks	2,497	(666)	–	1,831
Debtors	1,987	(33)	(34)	1,920
Creditors: Amounts falling due within one year	(1,706)	(11)	(142)	(1,859)
Provisions for liabilities	(22)	(24)	–	(46)
Net cash	569	–	–	569
Total	3,819	(772)	(154)	2,893
Consideration satisfies in cash				14,287
Goodwill on consolidation				11,394

Other than conforming to the Meggitt stock provisioning policy none of the fair value adjustments above are considered significant.

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

Amendment to the fair value of acquisitions

The 2003 provisional fair value adjustments have been revised in the year, principally due to the finalisation of purchase price adjustments resulting in amounts received from the vendors of the acquired businesses. The total adjustment to goodwill was a reduction of £0.8 million.

The 2004 provisional fair values will be finalised during 2005.

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, actions 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 of the Meggitt Group 1990 Pension Plan (1990 Plan), the Meggitt Executive Pension Plan (MEPP) or the Dunlop Aerospace Limited UK Pension Scheme.

On 24 August 2004, Meggitt PLC acquired the Design and Manufacturing Division of the Dunlop Standard Aerospace Group. The acquired business operates the Dunlop Aerospace Limited UK Pension Scheme.

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 was carried out as at 1 July 2004 and the provisional valuation results show that the Plan was 85% funded on estimated final salaries using a 2.5% per annum gap between salaries and yields. The assets were valued at £116 million.

The latest actuarial valuation of the MEPP was carried out as at 6 April 2004 and the provisional valuation results show that the Plan was 98% funded using a 2.5% per annum gap between salaries and yields. The assets were valued at £31.1 million.

The latest actuarial valuation of the Dunlop Plan was carried out as at 5 April 2003 and the valuation results showed that the Plan was 82% funded using a 2.0% per annum gap between salaries and yields. The assets were valued at £53.8 million.

The pension costs relating to the Meggitt Plans are assessed in accordance with the advice of Mercer Human Resource Consulting, consulting actuaries, and for the Dunlop Plan with the advice of PricewaterhouseCoopers LLP. They used the projected unit method for both the 1990 Plan and the Dunlop Plan, with the attained age method used 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.

33. Pensions continued

The pension charge in the UK for the year was £6.6 million (2003: £5.3 million). In respect of the Meggitt Plans an amount of £3.5 million (2003: £3.7 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 respect of the Dunlop Plan an amount of £9.3 million is included as a liability representing the scheme deficit. 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 FASB 87 purposes by Aon Consulting and at 31 December 2004 the assets were valued at \$113.2 million (2003: \$116.8 million) with a projected benefit obligation of \$131.7 million (2003: \$132.7 million).

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

In 2004 the actual profit and loss pension charge to the Group for overseas defined contribution pensions was £5.2 million (2003: £4.8 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 Group continues to adopt the transitional arrangements under FRS 17 and the required disclosures are made below.

The Group will be required to adopt International Accounting Standards, as published by the International Accounting Standards Board (IASB), for subsequent accounting periods. Given recent amendments announced to IAS 19 'Employee Benefits' the Group will take advice to ensure that it continues to adopt best practice in respect of accounting for retirement benefits.

Assumptions, asset, liability and reserves disclosures

The valuations used for FRS 17 disclosures have been based on the most recent actuarial valuations (at April 2004 for MEPP, July 2004 for the 1990 Plan, December 2003 for the Whittaker Frozen Plan and Whittaker unfunded plans and April 2003 for the Dunlop plan) 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 2004. Scheme assets are stated at their market value at 31 December 2004.

Employer cash contributions to defined benefit plans for the year were: MEPP £1.0 million (2003: £1.1 million), 1990 Plan £4.1 million (2003: £4.2 million), Whittaker Frozen Plan £Nil (2003: £2.7 million), Whittaker unfunded plans £0.4 million (2003: £0.5 million) and Dunlop Plan £1.7 million (from date of acquisition).

The contribution rates for the various schemes for 2005 have been agreed with the actuaries as follows:

MEPP	31.4%	(2004: 31.4%)
1990 Plan	24.5%	(2004: 22.7%)
Dunlop Plan	17.5%	(2004: 17.5%)
Whittaker Frozen Plan	Nil	(2004: Nil)
Whittaker Unfunded Plan	N/A	(2004: N/A)

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

	2004			2003		2002	
	Dunlop	MEPP	1990 Plan	MEPP	1990 Plan	MEPP	1990 Plan
Discount rate	5.25%	5.25%	5.25%	5.50%	5.50%	5.75%	5.75%
Inflation rate	2.75%	2.75%	2.75%	2.50%	2.50%	2.25%	2.25%
Increase to deferred benefits during deferment	2.75%	2.75%	2.75%	2.50%	2.50%	2.25%	2.25%
Increases to pensions in payment	2.75%	2.75%	2.75%	2.50%	2.50%	2.25%	2.25%
Salary increases	3.75%	3.75%	3.75%	3.50%	3.50%	3.75%	3.75%

	2004		2003		2002	
	Whittaker Frozen Plan	Whittaker unfunded plans	Whittaker Frozen Plan	Whittaker unfunded plans	Whittaker Frozen Plan	Whittaker unfunded plans
Discount Rate	6.00%	6.00%	6.25%	6.25%	6.50%	6.50%

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:

33. Pensions continued

2004								
	Long term rate of return		Value					
	UK	US	Dunlop £'000	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group Total £'000
Equities	7.50%	10.00%	47,830	23,487	97,764	20,208	–	189,289
Bonds	5.25%	6.50%	29,340	10,104	14,866	36,458	–	90,768
Property	7.50%	–	–	–	15,695	–	–	15,695
Cash	4.75%	–	108	–	–	–	–	108
Other Assets	–	1.00%	–	–	–	2,292	–	2,292
Total market value of assets at 31 December 2004			77,278	33,591	128,325	58,958	–	298,152
Present value of scheme liabilities			(93,259)	(39,728)	(169,106)	(68,618)	(2,395)	(373,106)
Deficit in the scheme at 31 December 2004			(15,981)	(6,137)	(40,781)	(9,660)	(2,395)	(74,954)
Related deferred tax asset			4,794	1,841	12,234	3,820	947	23,636
Net pension liability at 31 December 2004			(11,187)	(4,296)	(28,547)	(5,840)	(1,448)	(51,318)

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	7.50%	–		–	13,230	–	–	13,230
Cash	–	–		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)

33. Pensions continued

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

	2004 Group £'000	2003 Group Restated £'000
Net assets	464,995	271,124
Adjust for net pension liability/(asset) already recognised in net assets	5,236	(1,337)
Adjusted net assets	470,231	269,787
Net pension liability	(51,318)	(48,355)
Net assets including pension liability	418,913	221,432
Profit and loss reserve	86,760	86,769
Adjust for net pension liability/(asset) already recognised in profit and loss reserve	5,236	(1,337)
Adjusted profit and loss reserve	91,996	85,432
Net pension liability	(51,318)	(48,355)
Adjusted profit and loss reserve including pension liability	40,678	37,077

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

	2004				
	Dunlop £'000	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000
Service cost	1,661	819	2,355	–	–
Operating charge	1,661	819	2,355	–	–

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

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

	2004				
	Dunlop £'000	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000
Expected return on pension scheme assets	1,698	2,094	8,238	4,764	–
Interest on pension liabilities	(1,693)	(2,061)	(8,974)	(4,356)	(158)
Net financial return	5	33	(736)	408	(158)
	2003				
	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group Total £'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)

33. Pensions continued

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

2004						
	Dunlop £'000	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group £'000
Actual return less expected return on assets	4,098	1,232	7,641	(851)	–	12,120
Experience gains and losses on liabilities	–	2,586	17,448	567	(68)	20,533
Changes in assumptions	(3,423)	(2,783)	(15,175)	(1,563)	(38)	(22,982)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	675	1,035	9,914	(1,847)	(106)	9,671

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 total recognised gains and losses		(612)	(6,561)	1,494	(57)	(5,736)

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

2004						
	Dunlop £'000	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group £'000
Deficit in scheme at beginning of year	–	(7,355)	(51,731)	(8,903)	(2,668)	(70,657)
Movement in year:						
On acquisition	(16,718)	–	–	–	–	(16,718)
Current service cost	(1,661)	(819)	(2,355)	–	–	(4,835)
Contributions	1,718	969	4,127	–	361	7,175
Net return on assets/(interest cost)	5	33	(736)	408	(158)	(448)
Exchange translation differences	–	–	–	682	176	858
Actuarial gain/(loss)	675	1,035	9,914	(1,847)	(106)	9,671
Deficit in scheme at end of year	(15,981)	(6,137)	(40,781)	(9,660)	(2,395)	(74,954)

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

2003						
		MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group £'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:

	2004 Group		2003 Group		2002 Group	
	% of scheme assets/liabilities	£'000	% of scheme assets/liabilities	£'000	% of scheme assets/liabilities	£'000
Difference between expected and actual return on scheme assets	4.1%	12,120	6.6%	13,733	(22.5%)	(42,746)
Experience gains and losses on scheme liabilities	(5.5%)	20,533	0.5%	(1,476)	1.0%	(2,627)
Total amount recognised in statement of total recognised gains and losses	(2.6%)	9,671	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 2004 but relates only to those subsidiaries principally affecting the profits or assets of the Group.

United Kingdom

Dunlop Limited ‡	Dunlop Aerospace Limited
Dunlop Holdings Limited ‡	Dunlop Standard Aerospace (UK) Limited ‡
Dunlop Standard Aerospace Group Limited ‡	Dunlop Standard Aerospace Holdings Limited ‡
Dunlop Standard Aerospace Overseas Limited ‡	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

North America

Avica, Inc – USA	Caswell International Corporation – USA
Endevco Corporation – USA	Meggitt Airdynamics Inc – USA
Meggitt Defense Systems, Inc – USA	Meggitt GP Inc‡ – USA
Meggitt Holdings (USA) Inc‡ – USA	Meggitt Holdings (California) Inc‡ – USA
Meggitt Oregon, Inc – USA	Meggitt Safety Systems Inc – USA
Meggitt-USA, Inc‡ – USA	Meggitt Western Design Inc – USA
S-Tec Corporation – USA	Stewart Warner South Wind Corporation – USA
Transducer Technology, Inc – USA	Vibro-Meter Inc – USA
Whittaker Controls Inc – USA	Whittaker Corporation‡ – USA

- 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 2004.
- 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 26.

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 2004 final dividend of 4.80p per share, if approved, will be paid on 1 July 2005 to shareholders on the register on 1 April 2005. The expected dividend payment date for the 2005 interim dividend is 2 December 2005.

Results Announcements (provisional)

2005 interim results announcement	– September 2005
2005 full year results	– preliminary announcement March 2006 – report and accounts April 2006

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 2004

	No. of shareholders	% of total shares		No. of shareholders	% of total shares
Size of holdings:			Types of shareholder:		
1–999	6,566	0.4	Individuals	8,633	2.9
1,000–9,999	2,436	1.7	Banks and nominees	1,087	94.0
10,000–99,999	512	3.9	Investment and insurance companies	24	0.2
100,000–249,999	137	5.0	Other	98	2.9
250,000–499,999	61	5.3			
500,000–999,999	52	8.6			
1,000,000 and over	78	75.1			
	9,842	100.0		9,842	100.0

Share Dealing Services

Share dealing services have been established with the Company's registrar, Computershare Investor Services PLC, which provide shareholders with an easy way to buy or sell Meggitt PLC ordinary shares on the London Stock Exchange.

The Internet Share Dealing Service commission is just 0.5%, subject to a minimum charge of £15. In addition stamp duty, currently 0.5%, is payable on purchases. There is no need to open an account in order to deal. Real time dealing is available during market hours. In addition there is a convenient facility to place your order outside of market hours. Up to 90 day limit orders are available for sales. To access the service log onto www.computershare.com/dealing/uk. Shareholders should have their Shareholder Reference Number (SRN) available. The SRN appears on share certificates. A bank debit card will be required for purchases.

The Telephone Share Dealing Service 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 obtain independent financial advice. 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

	2004 £'000	2003 Restated* £'000	2002 Restated* £'000	2001 Restated* £'000	2000 Restated* £'000
Turnover and profit					
Turnover	479,183	402,441	403,840	435,084	386,023
Profit before taxation, exceptional items and amortisation of goodwill	89,469	77,847	70,312	72,438	66,126
Amortisation of goodwill	(24,981)	(20,185)	(18,111)	(18,261)	(16,293)
Exceptional items	(7,879)	(13,334)	(12,967)	2,728	6,335
Profit before taxation	56,609	44,328	39,234	56,905	56,168
Earnings and dividends*					
Earnings per share	9.1p	6.7p	5.5p	10.4p	10.9p
Earnings per share – IIMR basis	15.4p	16.4p	14.9p	15.1p	14.1p
Dividends per ordinary share	7.00p	6.53p	6.09p	5.92p	5.57p
Capital					
Average capital employed	368,060	265,240	254,026	233,552	198,383
Return on average capital employed	15.4%	16.7%	15.4%	24.4%	28.3%
Gearing ratio					
Year end net cash/borrowings as a percentage of capital employed	70.6%	51.8%	54.2%	60.7%	83.1%

The five-year record shows the figures reported in each respective year and excludes the effects of subsequent acquisitions and disposals. The figures for 2003 have been restated for the effect of the change in accounting policy for development expenditure. It has not been practicable to restate earlier years with respect to this change. 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.

All years have been adjusted for the re-presentation of ESOP shares in accordance with UITF38.

* All comparative data for earnings and dividends has been adjusted for the bonus element of the rights issue approved by shareholders on 21 July 2004.

Advisors

Principal Clearing Bankers

HSBC Bank plc
Barclays Bank PLC
Bank of America, N. A.

Merchant Bankers

N M Rothschild & Sons Limited

Auditors

PricewaterhouseCoopers LLP
Reading

Solicitors

Clifford Chance LLP

Company Registered No.

432989

Brokers

Merrill Lynch International

Registrars

Computershare Investor Services PLC
PO Box 82
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Bristol BS99 7NH



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