Annual report and accounts 2005

MEGGITT
smart engineering for
extreme environments

Financial highlights

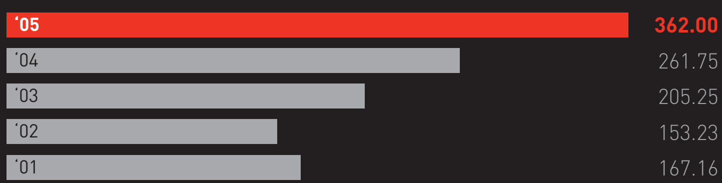
Meggitt is an international aerospace, defence and electronics group with a consistent record of strong financial performance. Meggitt's goal is to increase its presence in long term growth markets through proprietary product development reinforced by strategic acquisitions and investment in people and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

616.3
Turnover
(£ millions)

116.3
Underlying profit before tax
(£ millions)*

132.8
Cash inflow from operations before exceptional operating costs
(£ millions)

362.00
Year-end share price (adjusted for 2004 rights issue)
(pence)



7.7
Dividends per share (adjusted for 2004 rights issue)
(pence)

20.0
Underlying earnings per share
(pence)*

* The definition of "underlying" is provided in note 10 to the financial statements on page 55.
Figures for 2003 and earlier years have not been adjusted to take account of the transition to International Financial Reporting Standards.

Smart engineering for extreme environments

Meggitt PLC, headquartered in the United Kingdom, employs some 5,700 people in operations spanning Asia, Europe and North America.

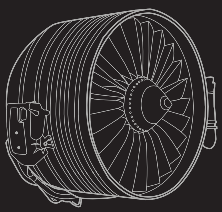
Our highly successful business is based on designing and making sophisticated components and sub-systems that perform critical functions in severe conditions—economically, cleanly, safely and reliably. Enduring extremes, which include temperature, impact, vibration and contamination, our specialised products are specified repeatedly by aerospace, defence, space, nuclear, power generation, transportion, medical and test engineers.

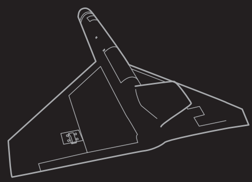
Each Meggitt business prides itself on the closest possible cooperation with customers, developing and fine-tuning products to meet individual requirements to the most exacting standards. Together, however, we go much further. We apply the broadest intelligence to the big picture, harnessing the group's capabilities and expertise to achieve customers' wider commercial and military goals. In this report, we highlight some of these capabilities and the people who bring them to fruition.

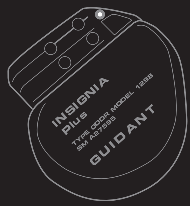
Our research and development programmes and the expertise of our managers, technical staff and craftsmen will always home in on what customers really need, driven by the combined resources of Meggitt's strategically-managed, increasingly interrelated group.

Contents

Markets, products and systems







Aerospace

- Air data computing and data acquisition
- Autopilots
- Electro-thermal and pneumatic ice protection
- Engine interface and vibration monitoring
- Engine sensors and condition monitoring
- Fire and smoke detection
- Fluid control
- High performance cables
- High voltage DC motors and controllers
- Micro-electronic sensor processors and displays
- Polymer seals and fire barriers
- Thermal management
- Wheels, brakes and anti-skid systems

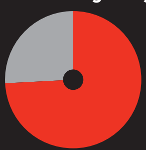
£458.6m

Turnover (£ millions)

'05	**458.6**
'04	336.9
'03	275.5
'02	269.9
'01	281.2

74.4%

Percentage of group sales



Defence systems

- Aerial, land and marine targets, command and control systems and field services for small and large weapon training and systems development
- Aeromechanical launch and recovery systems for decoys and targets
- Ammunition handling
- Countermeasures
- Electronic scoring and field services
- Environmental control
- Fibre optic cabling
- Projectile detection
- Special purpose aerial pods

£86.0m

Turnover (£ millions)

'05	**86.0**
'04	68.9
'03	52.0
'02	38.9
'01	37.2

14.0%

Percentage of group sales

Electronics

- Component and systems calibration
- Equipment positioning and mode switching
- Laboratory and airborne test, signal conditioning and electronics
- Piezo-electric transducers
- Potentiometers and position sensors
- Silicon variable capacitance and piezo-resistive accelerometers and pressure transducers

£71.7m

Turnover (£ millions)

'05	**71.7**
'04	70.8
'03	71.2
'02	68.6
'01	66.5

11.6%

Percentage of group sales

Chairman's statement

Meggitt achieved an excellent trading performance supported by strong cash generation. With the continued recovery in our aerospace markets and the Dunlop business successfully integrated, the group is well placed for future growth.

Sir Colin Terry Chairman

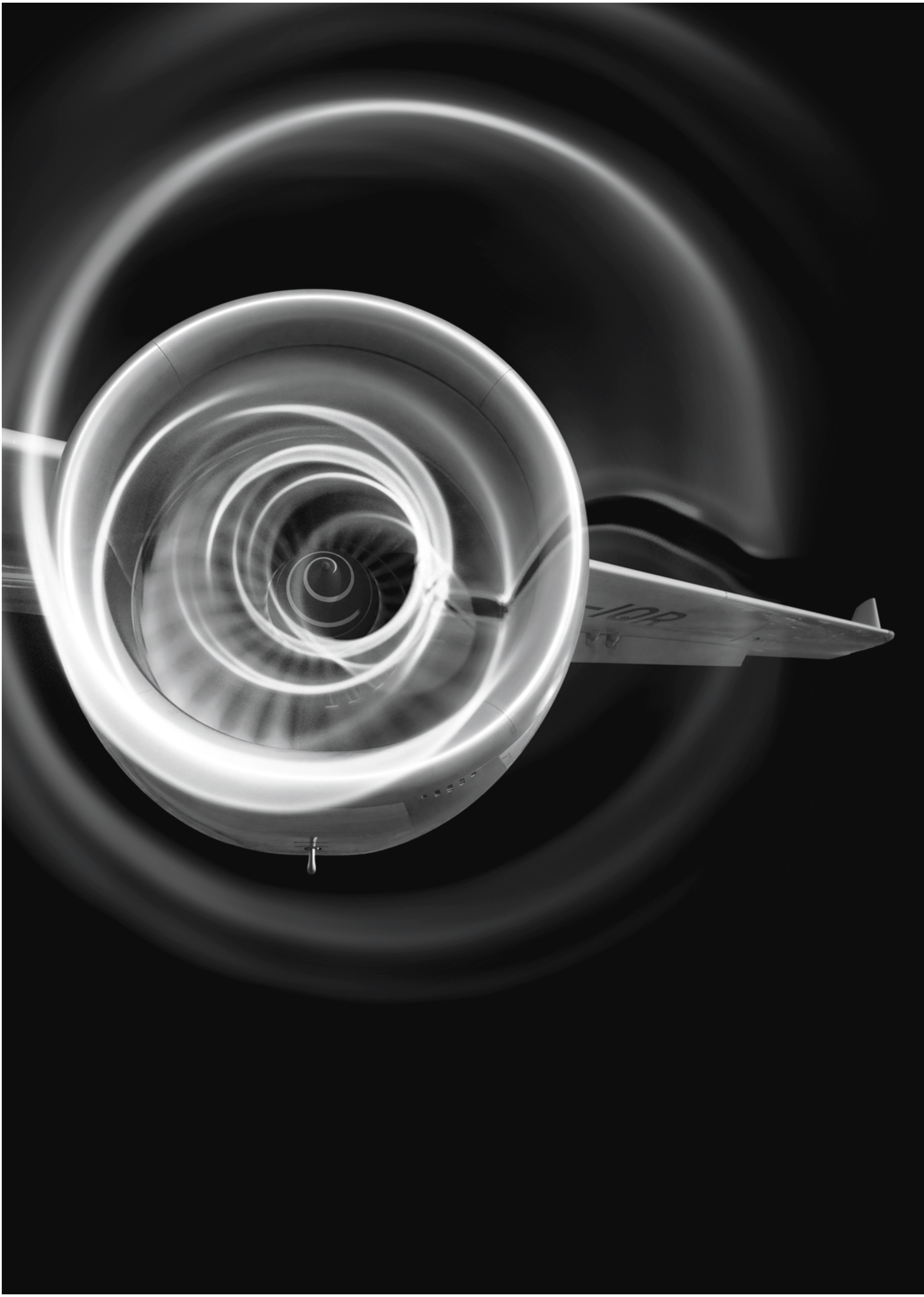
Another record year
Revenues increased 29% to £616.3 million and underlying profit before taxation was up 29% to £116.3 million. Profit for the year increased by 26% to £66.2 million. The group's profits were underpinned by another strong cash performance with 102% of underlying profit converted to cash and an order book 30% higher than the same time last year. The Dunlop Aerospace business acquired in 2004 has been successfully integrated into the group and continues to perform in line with expectations. Given this strong performance, the board is proposing a 10% increase in the final dividend to 5.3 pence.

Aerospace picture looks bright
The year's recovery in the civil aerospace market from the low point in 2003/2004 is expected to continue in 2006. Boeing and Airbus delivery forecasts for 2006 and 2007 are projecting significant increases over actual deliveries in 2005 and the market for business and general aviation remains robust. The recovery in civil aerospace is also leading to increased demand for civil spares and repairs. Military demand is expected to be healthy and although the regional aviation market is depressed, the aerospace picture over all looks bright.

Investing for the future
Our objective of delivering continued excellent shareholder returns is dependent on Meggitt maintaining significant investment in three main areas. First, we spent £30.8 million on research and development (approximately 5% of revenue), providing the backbone for continued organic growth. Second, we incurred capital expenditure of £19.2 million, ensuring our businesses operate with the best available equipment and facilities. Third, the acquisition of three businesses for a total £15.5 million continued our strategy of making selective acquisitions that extend our core competencies and enhance our market position. Avery Hardoll, a manufacturer of valves and measurement devices for the refuelling markets, complements our existing Whittaker Controls business; and ECET, a specialist in ignition systems and airborne electronics and Sensorex, a manufacturer of sensors and electronics for extreme environments, enhance our position in these markets.

Outstanding people
I cannot stress strongly enough my gratitude for the skills and application shown by our employees. Their support and dedication is integral to our strong performance and I conclude by extending my thanks and congratulations to them.

Sir Colin Terry
Chairman



Health monitoring and management

To cut the cost of unscheduled maintenance, unnecessary inspection and trouble shooting, system operators must anticipate—not just discover—wear and tear. When planning operations, maintenance and inventory, they come to Meggitt for the latest predictive tools.

We have been at the forefront of vibration monitoring technology for over half a century. Today, our expanded range of sensors is underpinned by a complete systems integration capability and new diagnostic and prognostic packages that turn data into maintenance actions and monitoring into active management of system condition. This capability is exemplified by state-of-the-art monitoring systems which create clear and unambiguous images of the Trent 900 engine for the Airbus A380; and the Trent 1000 and GEnx engines for the Boeing 787.

Our helicopter health and usage monitoring systems have proved themselves over a million flying hours in all terrains and all climates. This includes ROTABS™, the world-leading system, which gathers data during revenue flight and presents simple rotor balancing instructions to ground crews.

Peter Kupferschmied Director, Systems Engineering
Vibro-Meter, Switzerland

Academia wasn't really all for me. After a Masters in Mechanical Engineering, postgraduate technical business science studies and a Doctorate in aerodynamic measurement at the Swiss Federal Institute of Technology, I became Deputy Director of the Institute's turbomachinery lab, competing for business with industrial research and technology programmes and moving towards my real ambition: to create products from A to Z. Now I run Vibro-Meter's systems engineering group, delivering advanced solutions to monitoring and managing the health of aero engines and other valuable assets. This enables me to work across Meggitt, where there are huge opportunities for interesting technologies to merge into advanced products and applications. The mix of disciplines and cultures is fascinating. I'm an exotic creature here—a mechanical engineer in an electronic engineering world. But it works. When we look across our boundaries, we generate new, bigger and better ideas. As most things in life, it's all about people: bring the right people with the right skills together and innovation starts to look easy.

Strategy

We are in business to generate consistent, upper quartile shareholder returns by delivering best value for our products and services in aerospace, defence and specialist markets.

Terry Twigger Chief Executive

Our business model is evolving to match our changing market conditions but remains underpinned by several fundamentals: owning and investing in intellectual property; providing exceptional aftermarket services; developing and rewarding our excellent workforce; exploiting the growth opportunities our businesses can seize by coordinating activities; maintaining a balanced portfolio of interests; and remaining poised to grow by targeted acquisition.

Owning our technologies

Owning intellectual property makes it hard for potential competitors to gain ground. We take care to invest in our established portfolio of highly engineered and specialist products, protecting our position on current programmes and equipping ourselves with the technologies that will win our place on new ones.

Managing our aftermarket

We design and develop our products, so are well-placed to look after them throughout their service lives, achieving consistent, predictable and long-term aftermarket revenues. We underpin product quality with comprehensive care packages that support customers with inventory control, spares distribution and third party supply management.

Equipping our people

Meggitt people set high standards for themselves and take pride in meeting them consistently. This culture of strong performance has been integral to our success and we are determined to protect it by supporting, training, developing and rewarding them so they are equipped to respond to the needs of our high-growth business.

Working as a group

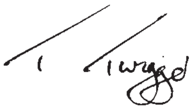
Some of these needs centre on exploiting growth opportunities intrinsic to us as a group of businesses. We are increasingly managing our investment in core technologies from this perspective and, as we coordinate and present what Meggitt offers as a coherent whole, simplifying procurement for key customers. We will continue to achieve economies of scale through group purchasing initiatives.

Balancing interests

Proactively managing and investing in Meggitt businesses as a group is key to sustaining growth over the long term. This includes maintaining a balanced portfolio that enables us to steer a steady course throughout our business cycles. We balance sales to original equipment manufacturers with sales to their aftermarkets; military with commercial interests; and North American with European and Asian business. Our growing international presence includes our sourcing, manufacturing and aftermarket capability in Asia, and our recent acquisitions in France.

Acquisitions

Meggitt is an experienced integrator of new businesses, whether to strengthen our existing positions or acquire new ones. We are always ready to seize opportunities to develop our markets and enhance our technologies when presented with appropriate acquisitions.



Terry Twigger
Chief Executive

Group strategy

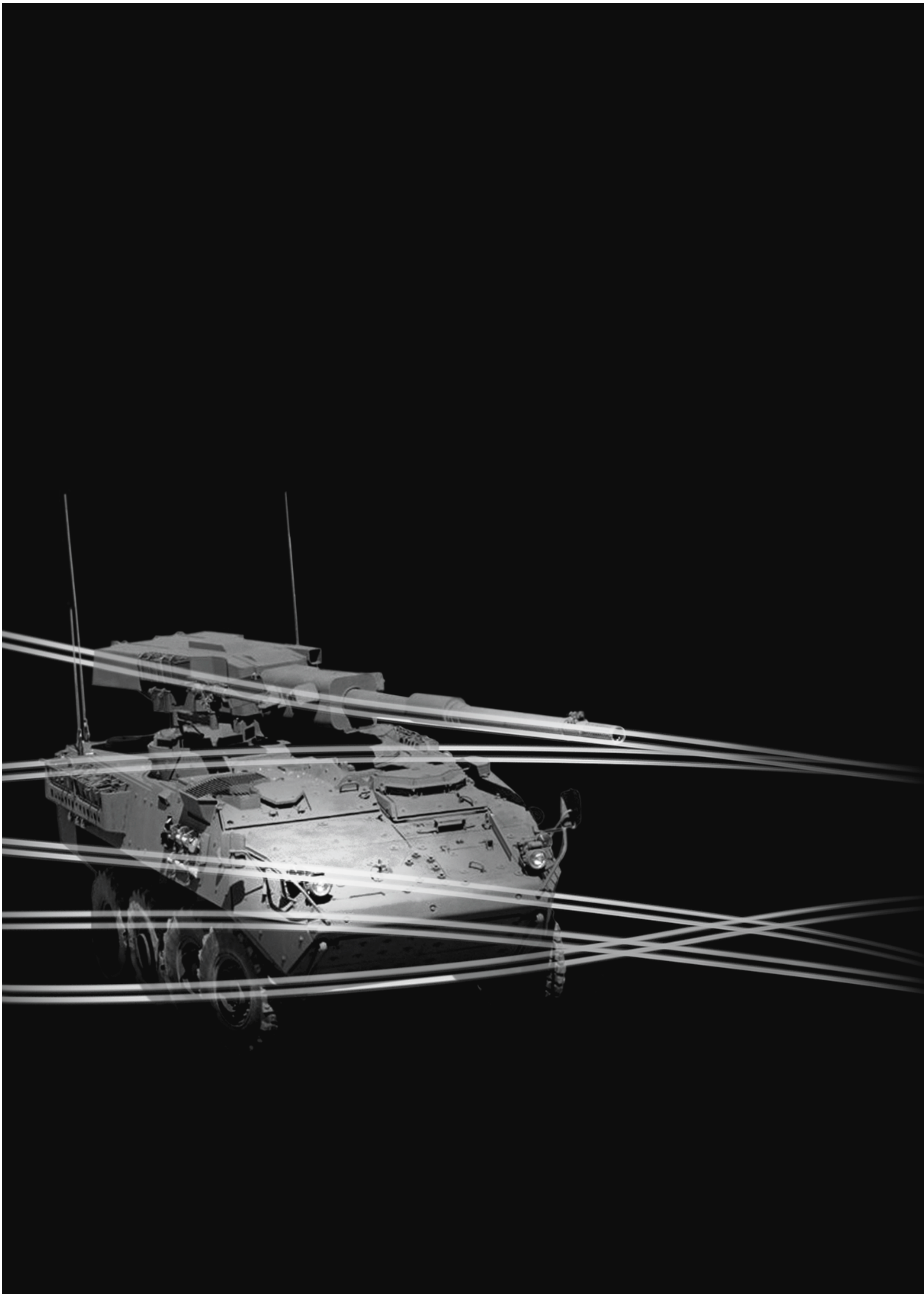
Deliver upper quartile shareholder returns from best total value products and services for civil aerospace, military and specialist markets

Group strategic objectives

Continue to develop leading positions in markets with high barriers to entry and strong aftermarket revenues	Maintain a culture of strong performance	Promote group synergies	Proactively manage our businesses and investments to deliver long-term sustainable growth	Grow by targeted acquisitions

Key business actions

Earn high ratings from customers for world-class service delivery	Protect and develop our intellectual property by strategic R&D investment	Achieve operational excellence	Support, train and develop our people	Exploit market and technology opportunities across the group	Maximise intellectual property in related markets	Seek acquisitions and alliances to strengthen our technology and market positions



Land systems

Our environmental control systems and ammunition handling technology is well-established in the world's premier combat vehicles. Our thermal management systems cool crew and equipment in the M1A2 SEP Abrams tank. The Stryker's mobile gun system increases its firepower with our replenisher, which can automatically transfer ten rounds a minute.

Now we are mobilising more of the group's extreme environment engineering to meet the military's requirement for the smaller, more mobile and deployable vehicles needed for asymmetric, information technology-enabled warfare.

Meggitt's fire protection technology—carried by 85 per cent of aircraft in service—is now being deployed in land systems, building on existing developments in main battle tanks, landing craft and light armoured vehicles.

Our sensors, navigation and communications devices; nuclear, biological, chemical and ballistic threat detection equipment; decoys and countermeasures; electric drive and electric braking; and smart cabling and condition monitoring capability are equally ripe for technology transfer, with the potential to make armoured vehicles robust yet agile and their firepower and command and control systems more powerful yet energy efficient. All will be underpinned by the standards of operational readiness and reliability that characterise Meggitt's extreme environment products.

Stuart Westlake-Toms
Business Development Director
Meggitt Defence Systems, England

At 17, I was an aircraft apprentice and pilot. I could still replace the electrics in a Vulcan. Later I became a Gunner in the British Army, so I know artillery. That's the fit with Meggitt Defence Systems, which specialises in threat simulation and weapons and land systems development. I've spent a few hours in armoured vehicles too. Wheeled, tracked, in the UK, US, Canada, Germany, Oman. When you drive a vehicle, maintain it, live in it, command it and train to fight with it, it's your second skin. Running convoys and moving cross-country on every type of terrain, in all weathers, teaches you what they need to do. Then came the desk jobs—defining requirements, trialling guns and missile systems integration, looking after customers in the UK MOD procurement process. All this experience underpins my coordination of Meggitt's land systems capability. We can make an important contribution to developing the armoured vehicles of the future. That excites me, as a soldier and a businessman.

Market review

Meggitt's products and systems operate in extreme environments to the highest standards of reliability and safety—without fail. Our markets are in aerospace and defence primarily but we apply our engineering to specialist areas in the medical, automotive and industrial fields.

Because our revenues are balanced between original equipment (OE) and their aftermarkets, civil and military applications and across a global customer base served from Asia, Europe and the US, we can protect our shareholders against the cyclical nature of these markets.

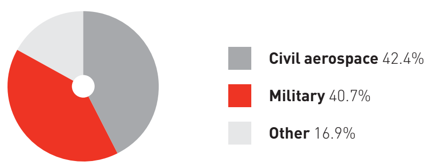
With continued strong growth in air travel and demand for new aircraft; rising defence spending in the US; and the increasing need for high-value sensors across the high technology spectrum, Meggitt remains positioned for growth in 2006.

Civil aerospace
Civil aerospace—our largest market—generates 42% of Meggitt's revenues. Our products are on almost all aircraft in service and on new platforms including the A380, Boeing 787 and new generation light jets.

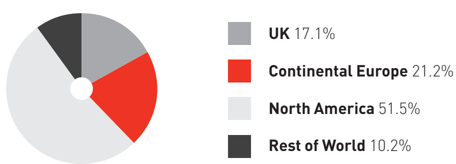
Buoyed by a robust global economy, this sector's outlook remains positive. Measured in Available Seat Kilometres (ASK), the International Air Transport Association forecast a rise in global traffic of 7% in 2006. ASK continues to be a key indicator of prospects for the aftermarket that generates nearly 60% of Meggitt's civil aerospace sales—long-term revenue streams for the service and spares required for the life of an aircraft.

Airbus and Boeing have forecast strong deliveries of original equipment in 2006 and 2007 (up 21% and 12% respectively) to meet the rise in air travel, replace ageing fleets and offset rising oil prices with more efficient aircraft. This has put the industry's supply chain under pressure. To satisfy demand, Meggitt is investing significantly in upgrading and expanding its manufacturing, focusing on service, seeking alternative low-cost procurement sources and actively managing its supply base.

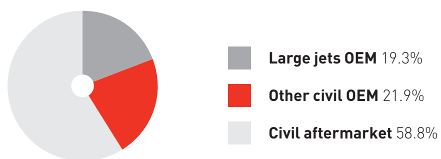
Turnover by segment 2005



Turnover by geographical destination 2005



Analysis of civil aerospace 2005



Regional aircraft, business jets and general aviation account for 9% of Meggitt's total sales. Growth of around 12% is forecast for the business jet and general aviation sectors in response to the strong, international economy and increasing corporate profitability. However, regional jets are likely to see another difficult year with the key North American carriers who fly these aircraft bankrupt or in poor financial condition.

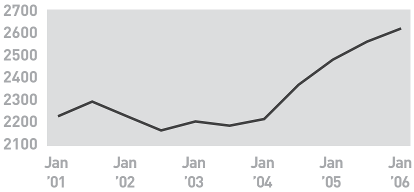
Over all, the positive trends—combined with our balanced and extensive presence in all major civil aircraft categories—indicate continued strong growth in this important market.

Military
The defence industry, a strategic and growing market for Meggitt, provides 41% of our total sales.

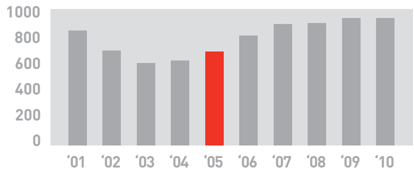
The US spends almost 50% of the world's global defence budgets. Its budget request for 2007 increased by 7% (to US$439 billion) from enacted 2006 levels, with procurement spend projected to rise by 8%. Growth, however, is expected to slow, with the outlook until 2009 suggesting 5% average growth.

In addition, operations in Afghanistan and Iraq will continue to be funded through supplementals from Congress in 2006. These operations generate spares revenues for the many Meggitt products supporting

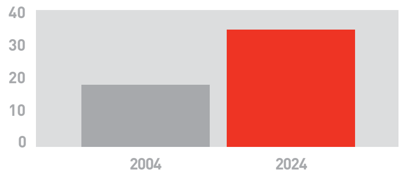
Available seat kilometres (millions)
Source: ATA



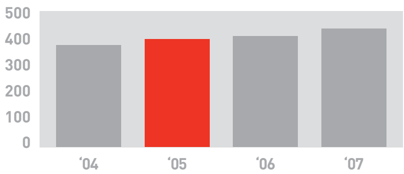
Forecast large jet deliveries
Source: UBS, Airbus and Boeing



World aircraft fleet ('000)
Source: Boeing Current Market Outlook 2005



Projected US defence spending
US dollar billions (excluding supplementals)
Source: US Department of Defense



platforms like the Apache helicopter and the Stryker armoured vehicle. The aftermarket represents 36% of Meggitt's military sales.

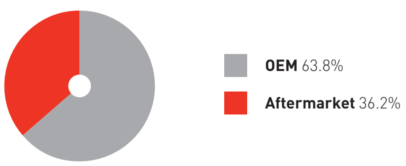
European defence budgets remain stretched and largely flat but continue to show low growth in the UK and France. The UK budget is set to increase to £33.4 billion in 2007/8, representing 1.4% average annual real growth over the period from 2004.

The UK and the US have just released their strategic reviews. The US Quadrennial Defense Review, which looks at US military needs for the next 20 years, was issued with the 2007 budget. It recommended major equipment changes to meet the unconventional and irregular military threats faced by the US. No major programme cuts were sustained, however. The UK Defence Industrial Strategy plans to provide industry with better intelligence on future needs, strengthen relationships between the MoD and its suppliers and highlighted the need to retain strategic skills and industrial capabilities. Our activities in these two key defence markets mean we can benefit from expenditure on new programmes and upgrades and platform life-extensions through spares provision and our retrofit capability.

Our products support many of the key air, land and sea systems. We supply all major current and future combat aircraft such as the F/A-22, Eurofighter Typhoon and Joint Strike Fighter; have secured sole source development contracts for ammunition handling on the US Army's Future Combat Systems mounted combat vehicle; and will provide smoke detectors for the US Navy's new DDG destroyer. Sales of Meggitt's weapon training systems are being boosted by governments' investment in live fire training for armed forces and security personnel, including significant orders from the US Army for their ten-year range modernisation programme.

Meggitt worldwide
North America remains the largest market by far for military and civil aviation, representing over 50% of Meggitt's total sales. Our US manufacturing facilities mean we can respond to the expected continued growth in civil aerospace and defence procurement.

Analysis of military 2005



Analysis of other markets 2005

With strong and growing manufacturing bases in Europe and Asia, we can also benefit from European defence spending reinforced by recent acquisitions in France, which strengthen access to European defence programmes and EU funding. Our expanding manufacturing, procurement and aftermarket facilities in Asia enable us to meet the projected strong growth in air traffic expected in the region and explore low-cost sourcing opportunities.

Beyond aerospace and defence
Around 17% of Meggitt's sales lie in high technology markets outside aerospace and defence. Our extreme environment sensors are used in dynamic testing for research and development activity; and they contribute to safety and comfort features in cars.

The slow recovery of the automotive market expected in 2006 and stronger growth in the emerging Asia markets should boost our position sensors business, for which some products are being manufactured and qualified in our China facility.

We are currently investing for the long term in new sensors for the medical and industrial gas turbine markets. Our sensors are already used to reduce cost and improve the performance of treatments incorporated into equipment such as catheters and probes or to monitor mechanical condition. Healthcare providers continue to seek high sensitivity, implantable material for miniaturised medical devices and higher temperature tolerant sensors for turbine monitoring are needed to reduce costs and improve the maintenance and operation of heavy machinery.

Brakes, wheels and anti-skid systems

Meggitt's lightweight carbon brakes were the first to be used in commercial flight—on Concorde. A combination of lightweight alloy wheels, high performance carbon and mechanical and digital anti-skid brake control systems continue to be deployed on state-of-the-art aircraft such as the Joint Strike Fighter, Eurofighter Typhoon and modern business jets like the Gulfstream G550. We support them all with comprehensive aftermarket services.

Research and development focuses on cutting operating costs by lowering weight, extending intrinsic product life and reducing maintenance requirements. Our electrically-actuated Ebrake™, using carbon composite technology, does all this—and can deliver more reliability and flight readiness than conventional hydraulic systems. Our innovative product improvement programmes for regional aircraft operators extend the life and reliability of older braking technologies.

Meggitt engineering and design comes with extreme testing. Our dynamometer test facility—the most advanced in the world—is used for critical rejected take-off tests, involving simulated braking and severe wear testing of the heaviest civil jet at full weight and speed.

Rob Cooper Machinist
Dunlop Aerospace Braking Systems, England

I've been in the metal-cutting business at Dunlop since I was 16 but don't cut by hand much now. It's computerised numerically-controlled machines more than handles and levers. I used to feel when the metal was cut right. Now I work with the best metal-cutting machine there is and I hear how it cuts. I make titanium torque tubes. They're special. They can stop a super jumbo from 200 miles an hour in under 25 seconds and save 120 kilos in weight. No-one here had ever seen such big lumps of titanium when the castings came in and engineers from other companies are amazed how we cut this hard material. This kind of job should involve eight set-up operations. We do it in one—and there's no CNC comparison because no-one else is doing it. Now we've got the machine up to speed, we're taking cost out of the job by getting more life out of the tooling. My apprenticeship comes into its own again—knowing how to use tools and understanding how different metals react under stress. That's how you improve a process and stay up to speed yourself.

Chief executive's operating review

2005 was another year of strong growth for Meggitt. The group is well-placed to take advantage of the sustained recovery in the civil large jet market—and its aftermarket—and respond to continuing healthy demand from the defence industry. Over all, with acquisitions complementing strong organic growth and the Dunlop integration performing in line with expectations, Meggitt turned in another set of excellent results.

Results
Underlying profit before tax increased by 29% to £116.3 million (2004: £90.3 million) on turnover up 29% to £616.3 million (2004: £476.6 million). Profit for the year increased by 26% to £66.2 million (2004: £52.5 million). This excellent performance, coupled with another year of strong cash generation, has led to an increase in the final dividend of 10% to 5.3 pence.

Acquisitions
Meggitt continued to focus its activities on aerospace, defence and high performance sensors. We acquired Avery Hardoll for £8.4 million. Located in the UK, this business provides products for the aerospace ground fuelling market, complementing products in our existing US controls business.

The acquisition of Sensorex and ECET in France for £7.1 million, which design and manufacture high performance sensors for the aerospace market, increased our presence on major Airbus aircraft from the A380 to several military programmes.

The group received a net payment of £16 million for the 2004 acquisition of Dunlop. This related primarily to consideration held in escrow pending resolution of certain ongoing commercial issues and to normal asset adjustments on finalisation of the acquisition accounts.

Aerospace
Turnover increased 36% to £458.6 million (£2004: £336.9 million). Underlying operating profit increased 37% to £107.2 million (2004: £78.4 million). Excluding the impact of acquisitions and at constant exchange rates, turnover increased by 8% and underlying operating profit by 10%. The aerospace order book at December 2005 was 33% up on December 2004 at constant exchange rates.

Good organic growth arising from the civil aerospace recovery and on-going healthy demand from the military markets

Meggitt's aerospace businesses, which account for 74% of group turnover and 82% of underlying operating profit, continued their excellent performance. This reflected good organic growth arising from the civil aerospace recovery, on-going healthy demand from the military markets and the impact of acquisitions.

Major orders in 2005 included the second tranche of Eurofighter Typhoon business amounting to £80 million for wheels, brakes and braking systems, air data transducers, crash survivable memory and engine optical pyrometers.

Development of the engine monitoring units (EMUs) for the General Electric GEnx and the Rolls-Royce Trent 1000 engines for the Boeing 787 aircraft progressed well. The EMUs on the GP7200 and the Rolls-Royce Trent 900 engines for the A380 aircraft were certified during 2005, with production preparation advancing. The advanced airborne vibration monitor (AAVM) for the Boeing 737, a joint Meggitt, Boeing and CFMI programme, has now been introduced into airline revenue service. Providing early information on potential engine bearing deterioration, several airlines are fitting the AAVM into new aircraft and two major US airlines are to retrofit their entire 737 fleet.

Meggitt's airborne fire detection business continued its excellent progress with several contract wins including the fire detection system for the A400M military transport aircraft, which comprises a central computer and fire detectors for the engines, main landing gear and auxiliary power unit.

Embraer will incorporate Meggitt's engine fire detection systems and cargo smoke detection products into its very light and light jets.

Meggitt's fluid dynamics businesses continued to secure multiple programme awards. The new engineering programmes of 2006, which should generate substantial aftermarket demand, include valves for GE's GEnx engine and for the Hispano-Suiza SAM146 engine that will power the future Russian regional jets family; anti-icing valves for the BR710 large jet engines used in Bombardier's Global Express and the Gulfstream V aircraft; air/oil separators for Pratt & Whitney Canada's 610, 615 and 617 general aviation engine range; and Hamilton Sundstrand for the F135, F136 and Trent 1000 engines.

Following the integration of recent acquisitions, Meggitt is developing a strong capability in thermal management with orders for anti-ice and high pressure environmental control systems for the Javelin very light jet and military trainer aircraft engine; the environmental control system ducting for Alenia Aeronautica's ATR 42 and ATR 72 aircraft, a growing family of twin turboprop, short-haul regional airliners; and in January 2006, the engine anti-ice system for the Embraer Phenom 100 very light jet.

Our polymers businesses won numerous orders from Boeing, GE, Gulfstream, Hawker and others. We completed the first-stage consolidation of the UK polymers businesses, successfully transferring Meggitt's business in Slough to Dunlop facilities in the Midlands. During 2006, we are expanding those facilities to enable further consolidation with a local plant.

The continued rise in the utilisation of Gulfstream and Raytheon business jets and the success of the ATR72 aircraft have led to increased braking system sales, despite a small reduction in the flying hours of the BAE 146 aircraft, many of which have been temporarily grounded as a result of liquidity issues faced by several major US airlines. New orders came from the second tranche of the Eurofighter Typhoon programme and Raytheon selected Meggitt to supply wheels, brakes and the braking system for the new Hawker 750 and 900 aircraft.

Meggitt's progress in wheel and brake repair and overhaul was evidenced by new support management contracts for the UK MoD's 19 VC10 aircraft and a five-year support management contract for the Britannia and Monarch fleets. We expanded Dunlop's repair facility in Singapore to support all Meggitt products used by the region's rapidly expanding airline industry.

A strong capability in thermal management with orders for anti-ice and high pressure environmental controls systems

The Avica UK factory, which manufactures metallic ducting parts for aircraft environmental control systems (sales £10 million per annum), was severely damaged as a result of explosions at the nearby Buncefield fuel distribution depot, Hemel Hempstead on 11 December 2005. Despite this, a superb response from the workforce and robust business continuity plans enabled limited production to recommence in early January 2006. Production will move to a smaller local facility and other group factories and should be completed by mid-2006, with a £5 million provision included within 2005 operating exceptional costs.

Defence systems

Turnover increased 25% to £86.0 million (2004: £68.9 million). Underlying operating profit increased by 19% to £14.7 million (2004: £12.3 million). Excluding the impact of 2004 acquisitions and at constant exchange rates, turnover increased by 19% and underlying operating profit by 18%. The order book at December 2005 was 17% up on December 2004 at constant exchange rates.

Meggitt's defence systems business made excellent progress in 2005, maintaining its strong position in weapon training systems, ammunition handling, environmental control systems for military use and launch and recovery systems for countermeasures.

Weapon training systems grew significantly in the year, benefiting from the large investments being made in live fire training for armed services personnel. Meggitt won orders on the US Army's ten-year range modernisation programme, digital multiplex ranges and military operations in urban terrain. US law enforcement agencies increased their orders for live fire mobile road ranges.

We secured ammunition handling production contracts for the Stryker mobile gun replenisher, the Apache 12 Pak and Combo Pak and the AC130 Gunship Mk44 magazines. We won new sole source development contracts for the Future Combat Systems (FCS) mounted combat vehicle, positioning Meggitt to win further ammunition handling business on other FCS vehicle variants.

Environmental control system production on the M1A2 Abrams tank thermal management system is projected to continue for at least the next five years and we started to develop and produce the vapour cycle cooling system for the C130 avionics modernisation programme.

Meggitt's countermeasures business was dominated by customer-funded development programs for next generation products. As they enter production in late 2006, Meggitt should experience strong growth in this sector.

At the end of 2005, Meggitt Defence Systems announced the merger of its three Californian businesses to capitalise on broader integrated engineering skills and increase operational capacity in response to the growing demands of the defence market. This consolidation should be completed in early 2007.

Electronics
Turnover increased 1% to £71.7 million (2004: £70.8 million). Underlying operating profit reduced by £2.3 million to £8.7 million (2004: £11.0 million). The order book at December 2005 was 26% up on December 2004 at constant exchange rates due mainly to the receipt of second tranche Eurofighter Typhoon orders.

Broader integrated engineering skills and greater operational capacity for Meggitt's defence systems business

Electronics sales (12% of the group total) were held back due to weakness in the automotive and test and measurement markets and two major medical companies announced their intention to reduce inventory levels. However, investment in new technologies, which continued with significant progress in smart sensing and high temperature sensor development, is expected to generate sales from 2007.

Our Spanish position sensing business saw reduced demand for on-board automotive use following the slowdown in the European and US automotive industry. Margins were also affected by continuing cost increases in raw materials, particularly copper and silver. Several new orders were secured on new automotive platforms and orders in the last quarter improved on those of the third.

Investment in a division-wide direct sales force in Europe is starting to bear fruit with wins on new missile programmes from Diehl in Germany and Thales in France. The division secured orders for the second tranche of Eurofighter Typhoon covering sensors for engine control and monitoring applications.

The facility in Xiamen, China continues to perform in line with expectations. The second phase of product transfers started in September 2005 with several position sensors from Spain. A project to assemble commercial aerospace speed probes has just begun. In line with our original investment plans, we will have expanded into a second, adjacent building by the end of 2006, adding another 5,000m^2 of manufacturing space.

Investing for the future
Meggitt continued to invest in research and development (R & D) to sustain organic growth. Cash spend in 2005 was £30.8 million, around 5% of turnover as previous years, excluding customer-funded R & D at nearly 2% of turnover.

Capital expenditure of £19.2 million continues to ensure our businesses have the best facilities and equipment. In the second half of 2005, the board approved a number of major investments to increase capacity and productivity including new facilities for the aerospace businesses in Basingstoke (UK) and in Manchester (USA) when their leases expire; expansion of the aero-engine condition monitoring facility in Fribourg (Switzerland); enlargement of the polymers facility in Shepshed (UK); and the consolidation of our three Californian defence systems businesses into a local Irvine facility.

Capital expenditure in 2006 is expected to increase to £35 million as a result of these investments, before returning to around £20 million thereafter.

Meggitt continues to invest in human resources. In 2005, we enhanced processes and systems including business and organisational development and IT and compliance management to maintain the impressive growth record achieved over the last three years.

Outlook

Meggitt has continued to achieve strong growth in turnover and underlying profit and has, once again, delivered an outstanding cash performance.

Prospects for the civil aerospace market look very good with large jet production expected to increase by 21% in 2006 and 11% in 2007 and military demand continuing to look healthy.

Trading in our electronics businesses is likely to remain soft for at least the first half of 2006 as medical customers continue to destock.

Capital expenditure continues to ensure our businesses have the best facilities and equipment

Over all, however, the order book is robust, with a 30% increase during 2005 giving confidence that Meggitt will deliver further growth in 2006. In consequence, the Directors are recommending a 10% increase in the final dividend.

Sensing

In centres of excellence across the group, Meggitt makes sensors to measure virtually every physical parameter—acceleration, speed, pressure, force, temperature, distance, position, vibration and level—without fail, long term and in severe conditions.

They function on engines at high temperatures; on heart muscles and in the blood stream; on anthropomorphic dummies fixed to ejector seats; immersed in jet fuel; at missile and satellite launches; on offshore wind turbines; on helicopter rotor heads in the desert. We deploy a wide array of technologies, which include piezo electric, piezo resistive, capacitive, resistive, inductive, magnetic and optical sensors, to address our customers' key challenges: high temperature, high shock, limited space and weight, biocompatibility and communications.

In-house and with universities and national labs in Europe and the United States, we are developing our already considerable high temperature sensing capability—a key enabler for future jet engines and power generation—and investing substantially in our micro-electronic mechanical systems (MEMS) facility, ready to make silicon carbide sensors for next generation gas turbines.

Sophie Ramo Innovation Engineering Leader
Endevco, California

After a Bachelors in Mathematics and Computer Science from UCLA, a Masters in Computer Science and an MBA, I led software development at several private companies. Now I lead innovation engineering at Endevco. My job is to fire the imagination but keep feet on the ground, managing risk, balancing resource. We're working on stable sensing materials that can withstand temperatures up to 1000°C for turbine monitoring; and high sensitivity, implantable material for miniaturised medical devices. Our work on networked sensors could revolutionise current sensor instrumentation by size, weight, heat and cost in unmanned applications. Despite the inevitable highs and lows of product innovation, working with first-rate scientists here—all racing to meet market demand—is on a par with the exhilaration I feel when surfing each day, catching a wave at sunrise.

Financial review

Meggitt has had another successful year, delivering record revenues and profits through a combination of acquisitions and strong underlying growth. Our track record converting profit into cash continues, with cash flow from operating activities before exceptional operating costs an excellent 102% (2004:109%) of underlying operating profit.

Stephen Young Group Finance Director

The Dunlop acquisition continues to perform in line with expectations and is now fully integrated. We achieved savings of £7.0 million in 2005 by streamlining management and manufacturing and reducing procurement costs. This figure is expected to increase to £10.0 million in 2006. Costs of achieving these savings were £4.2 million in 2004 and £2.0 million in 2005 and are shown as exceptional operating costs.

Operating performance

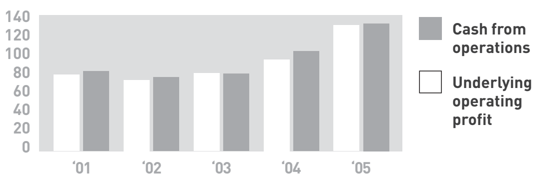
Group turnover increased by 29% to £616.3 million (2004: £476.6 million), with acquisitions representing £112.6 million of this rise. Excluding acquisitions and the adverse impact of currency movements (£4.6 million), group turnover rose by 7%.

Recent acquisitions greatly increased Meggitt's exposure to a rapidly strengthening civil aerospace market. In 2005, civil aerospace accounted for 42% of group turnover (2004: 35%) and military markets for 41% (2004: 45%). The civil and military aftermarket accounted for 40% of turnover (2004: 34%).

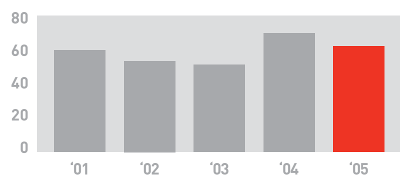
Historically, Meggitt has used an alternative profit measure which excludes certain items the directors believe distort the group's underlying trading performance. These measures are prefixed "underlying". The adjustments used to achieve underlying profit and a reconciliation with the figures shown in the income statement appear in notes 10 and 16.

Underlying operating profit increased by 28% to £130.6 million (2004: £101.7 million). Net interest expense rose by £2.9 million to £14.3 million (2004: £11.4 million), with the cost of funding acquisitions partially offset by strong underlying cash flow. This left underlying profit before taxation of £116.3 million (2004: £90.3 million), an increase of 29%. The increase included a £5.3 million adverse impact from currency movements and a £19.5 million benefit from acquisitions. Excluding currency and acquisitions, the underlying profit before tax increase was 11%.

Underlying operating profit and cash from operations



Gearing %



Profit after tax increased by 26% to £66.2 million (2004: £52.5 million).

The group's underlying tax rate reduced to 26% (2004: 27%) and underlying EPS rose by 15% to 20.0 pence (2004: 17.4 pence). Underlying tax rates are expected to increase modestly as tax losses are utilised in the near term.

Meggitt continued its track record of sustained cash generation with underlying cash inflow from operations up 20% to £132.8 million (2004: £111.0 million) representing a102% conversion of operating profit to cash. Net cash generated was £43.3 million and interest cover (based on underlying operating profit) improved to 9.1 times (2004: 8.9 times). Gearing reduced to 63% at the end of December 2005 compared with 71% at the end of December 2004.

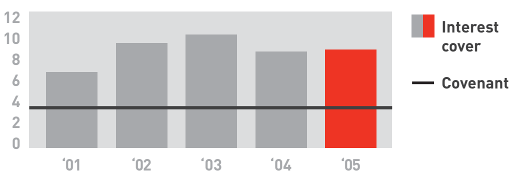
Returns to shareholders

As a result of this excellent performance, the board is proposing to increase the final dividend by 10% to 5.3 pence (2004: 4.8 pence), bringing the full-year dividend to 7.7 pence (2004: 7.0 pence), an increase of 10%. The share price on 31 December, 2005 was 362.00 pence (2004: 261.75 pence), a rise of 38%.

Currency profile of net debt (£m)

	2005	2004
Sterling	**(7.7)**	115.7
US dollar	**272.0**	202.5
Euro	**13.5**	(3.2)
Swiss franc	**34.0**	16.0
Other	**2.5**	(1.6)
Total net debt	**314.3**	329.4

Interest cover



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 approximately 8%.

Net borrowings at the end of December 2005 reduced by £15.1 million to £314.3 million (2004: £329.4 million). This reduction is less than the £43.3 million net cash generated in the year as most of our borrowings are in US dollars and currency movements have increased their sterling value. The currency exposure arising from the retranslation of our overseas net assets is reduced by holding our borrowings in currency.

Our banking covenants are still measured under UK GAAP and, on this basis, interest cover is 8.2 times (covenant greater than 3.5) and net debt to EBITDA is 2.2 times (covenant less than 3.5) so we have significant headroom on both measures.

At the year end, Meggitt had committed undrawn borrowing facilities of £220 million. The weighted average maturity profile of our committed facilities was 6.0 years and we had access to significant lines of uncommitted facilities.

Meggitt seeks to reduce volatility in its interest expense arising through rate fluctuations. This is partly achieved through the underlying character of the debt instruments and partly through the use of interest rate derivatives such as interest rate swaps. At 31 December 2005, the percentage of net debt at fixed rates was 37% and the weighted average period 8.2 years. Both exceed our treasury policy minimum criteria of 25% and two years respectively.

Our policy on transactional currency exposure is to hedge known, and some anticipated, exposures based on historical experience and projections. Meggitt must hedge at least 70% of the next 12 months' anticipated exposure and can hedge up to five years ahead. Current hedging is around 21 months' cover.

Pensions
Following discussions with the trustees, Meggitt announced the closure to new members of two active defined benefit schemes—the Meggitt 1990 scheme and the Meggitt Executive Pension Plan—from January 2006. Existing members in these schemes were asked to either increase their contributions from 5% to 7%, reduce the rate at which future benefits were accrued or transfer into a defined contribution scheme, which is also available to new employees. Following these changes, the group's defined benefit schemes are all closed to new members.

On an IAS 19 basis, the market value of pension assets increased by £51.0 million but this was more than offset by an increase of £74.2 million in pension liabilities. As a result, deficits across the five defined benefit schemes increased to £98.2 million before tax (2004: £75.0 million). The increase in pension liabilities was principally driven by new mortality assumptions and a reduction in the interest rate used to discount those liabilities. IAS 19 requires pension liabilities to be discounted at AA bond rates. In the UK, this meant liabilities in 2005 were discounted at 4.85% (2004: 5.25%) and in the US at 5.50% (2004: 6.00%).

Accounting and financial reporting standards
This is the first year that Meggitt has reported its results under International Financial Reporting Standards (IFRS). The main impacts for the group are:

- Goodwill is no longer amortised. It is however, necessary to identify separately from goodwill, values for acquired intangible assets that previously under UK GAAP would have been subsumed within goodwill. Such intangibles, including customer relationships, technology, order backlogs and tradenames, are amortised to the income statement over their estimated useful lives and disclosed on the line "Amortisation of intangibles acquired in business combinations" (see note 10).
- Meggitt uses a large number of foreign currency forward contracts to mitigate its exposure to exchange rate fluctuations and has decided that the additional costs of meeting the extensive documentation requirements of IAS 39 to apply hedge accounting are not merited. Accordingly, we cannot use hedge accounting for our foreign currency forward contracts; and gains and losses arising on marking to market such contracts at the balance sheet date have to be reflected in the income statement and are disclosed on the line "Financial instruments" (see note10).
- On acquiring a business, it is now necessary to increase the value of acquired inventory to include that element of profit attributable to work done before acquisition by the group. This increase is charged to the group's income statement as the acquired inventory is consumed and disclosed on the line "Revaluations of inventory acquired in business combinations" (see note10).
- Pension deficits are now included in the consolidated group balance sheet (previously they were disclosed in a note).
- Dividends are recorded as a liability only when approved (previously when proposed).

Additional disclosure of the effects of the transition is provided in note 44.

Stephen Young
Group Finance Director

Thermal management and control systems

Meggitt's complex thermal management and control systems draw on a vast reservoir of engineering talent in fluid dynamics, heat transfer and electro-mechanical design, a wide range of system parts and decades of experience solving problems in jets, armoured vehicles, the nuclear industry, spacecraft and industrial gas turbines.

We ventilate nuclear containment facilities and provide advanced fuel metering systems for efficient land-based power generation; cool state-of-the-art electronics in M1 Abrams tanks; ensure the fault-free operation of the V22 rotorcraft's key avionics and gearbox systems; integrate the bleed air components for the radar pressurisation and cooling system for the US Navy's next generation EC-2 Hawkeye early warning aircraft; and cool laser mine detection systems, mast-mounted helicopter sights and countermeasure pods.

Now we are responding to the needs of mainstream aviation, combining a wide range of Meggitt products into single aircraft systems, saving customers the onerous costs of part-by-part engineering, procurement and testing. We provide the Eclipse 500's nacelle anti-ice system and its lightweight, easy-to-maintain ducting; the environmental control system ducting for Alenia Aeronautica's ATR 42 and ATR 72 aircraft; the anti-ice system for the Embraer Phenom 100 very light jet engine and—from design through to test, qualification and integration—the complete environmental control system for Javelin, the advanced executive jet and military trainer.

Doug Boobar Director of Engineering
Meggitt Thermal Systems, California

I've liked mending things from childhood, solving problems, being creative. I was destined to become an engineer in adulthood. After taking my Bachelors and Masters in Mechanical Engineering and getting my Professional Engineering License, I went on to work for Parker Hannifin, Hamilton Sundstrand, later consulting for GE, Goodrich and Embraer. Now my career is taking a different path. Meggitt has given me the chance to use my engineering skills, explore my entrepreneurial side and make strategic business decisions in a technical business development role. I am helping build Meggitt Thermal Systems. This environmental control systems capability comes from combining multiple products from the Meggitt family, using the systems integration experience we've been applying for several years to the light jet market. I am packaging something together that works, improving efficiency and profitability for us and our customers. I'm still mending things. They're just bigger—like creating this new Meggitt business model, fusing components into a thriving systems line that only we can orchestrate.

Corporate social responsibility

We are determined, in our fast-growing business, to remain aware and prepared. In 2005, we launched a programme to reinvigorate our understanding of ethical principles and practice, publishing and publicising our new code of conduct and developing the business ethics training tools to support it.

During 2005, we focused not only on ensuring regulatory compliance in our operations but exploiting it as a business enabler, implementing a global export compliance programme of the highest standard to enhance the confidence of customers and regulators.

Responsible corporate citizenship at Meggitt is informed by principles reflected in management practice and which 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

For our stakeholders, this means financial probity, effective risk identification; robust internal and external reporting and control systems; dynamic business continuity plans; safe working environments; independent audits; internationally accredited environmental management systems; training and modern operational practices; lasting customer relationships; and the social and economic enrichment of local communities.

During 2005, we focused not only on ensuring regulatory compliance in our operations but exploiting it as a business enabler, implementing a global export compliance programme of the highest standard to enhance the confidence of customers and regulators.

CSR responsibility

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

Governance and compliance

Meggitt has always conducted its business based on sound principles of corporate governance as set out in the Directors' Statement (page 33). Its profits are 'real'. The group's cash inflow from operating activities in 2005 continues to show Meggitt's ability to convert a very high percentage of operating profit.

Risk

Systems across the group identify and manage financial, operational, environmental and compliance risk. Key risks are reviewed regularly by the management and main boards. Our internal risk management process is robust and described under Internal Control (page 34). In 2005, we continued to develop our business continuity management plans, integrating them with a new risk identification and management process based on the latest risk evaluation models. Seven Meggitt sites implemented plans and 21 developed and enhanced existing plans.

Health and safety

We promote the health, safety and welfare of our employees and site visitors through safety training and protective equipment. In 2005, we continued to roll out the group's health and safety audit programme. A further 12 Meggitt sites were audited and a similar number will be audited in 2006.

Environment

As a manufacturer, we regard health, safety and environmental issues as a CSR cornerstone. In 2005, Meggitt committed itself to the Society of British Aerospace Companies' Sustainable Aviation strategy. Certification of our environmental management has now reached 23 of Meggitt's 34 sites, with a further six making progress on ISO14001 accreditation. Minimising the environmental impact of operations continues with a programme of external audits. 12 Meggitt sites were audited in 2005 and key performance indicators are being identified.

Customers and suppliers

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 accordingly. The majority of our sites have been certified to ISO9001, the international quality management standard. Our relationships with aerospace and defence customers are well established and many Meggitt businesses receive regular customer commendations and performance awards. Vibro-Meter, Meggitt's engine diagnostics business, regularly receives supplier-of-the-year awards from Airbus—every year for the last three—and in 2005, an award for technology innovation from Flight International, one of the industry's foremost journals.

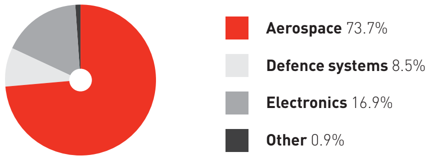
Ethical business

In 2005, the Board adopted an ethics and business conduct policy and code of conduct (see www.meggitt.com), appointing a group ethics and business conduct manager to implement it. We are firmly committed to integrity and honesty in all our relationships from customers to suppliers and local communities. In particular, we expect the highest standards of ethical behaviour from our employees and those who represent us. From the Chief Executive to the shopfloor, all Meggitt staff will be trained on the policy and code during 2006 and we will relaunch and renew awareness of the independent ethics helplines through which employees can seek advice or report breaches without compromising their position or professional relationships. Everyone will receive refresher training on ethical issues, which will form part of induction.

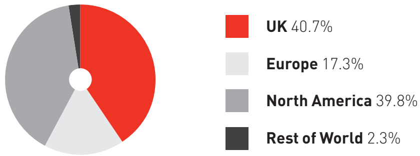
Working at Meggitt

Our international business with its diverse workforce is subject to equal opportunity employment policies.

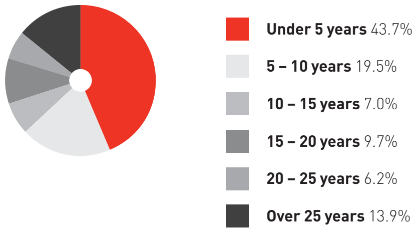
Employees by segment



Employees by location



Employees by length of service



Since modern, operational practice is vital to the group's continuing success, 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 £224 million in 2005 (around 36 per cent of sales). Local, community-oriented donations, sponsorships and education programmes are exemplified at operational level by Endevco. This Meggitt sensor business in the US provides a state university with an annual engineering scholarship. Meggitt's UK headquarters provides a local comprehensive school with a board director as a governor, an annual award for outstanding student musicianship and sponsors music projects to develop performance skills. Meggitt PLC continues to sponsor a local National Health Service hospital trust with educational bursaries, service and achievement awards and responds to ad hoc requests for financial help, particularly from schools. In 2005, Meggitt matched employee contributions to the Tsunami and Hurricane Katrina appeals.

The future

Meggitt will continue to develop and implement CSR practices that benefit our businesses, employees, customers, suppliers and local communities, supporting Meggitt's new code of conduct and training requirements vigorously. We see ethical and regulatory compliance as a key business enabler, ensuring those with whom we deal experience the same high degree of probity we expect from them. We are also standardising our regulatory and compliance response processes to ensure consistency and quality across the group. This includes all aspects of health, safety and the environment and export compliance, which is especially important to an international group with defence interests.

Barney Rosenberg
Group Ethics and Business Conduct Manager
Meggitt PLC, California

I'm a corporate lawyer with a strong background in white collar criminal defence. At first hand, I've seen the consequences of corporations failing to do things right, casting a cloud over blameless people—and reputations. At Meggitt, my mission is to maintain awareness of ethics as we grow. Customers, suppliers and shareholders expect nothing less. If we get it right, we will continue to provide opportunities for employees and their families to lead good lives. Under pressure, people can wander unprepared into grey areas. And that's when most companies get caught out. The clear cut, straightforward business decisions are not the problem. They are easy for most people to understand. I see the challenge as making sure we get good at doing business in a more complex world economy.

Aftermarket

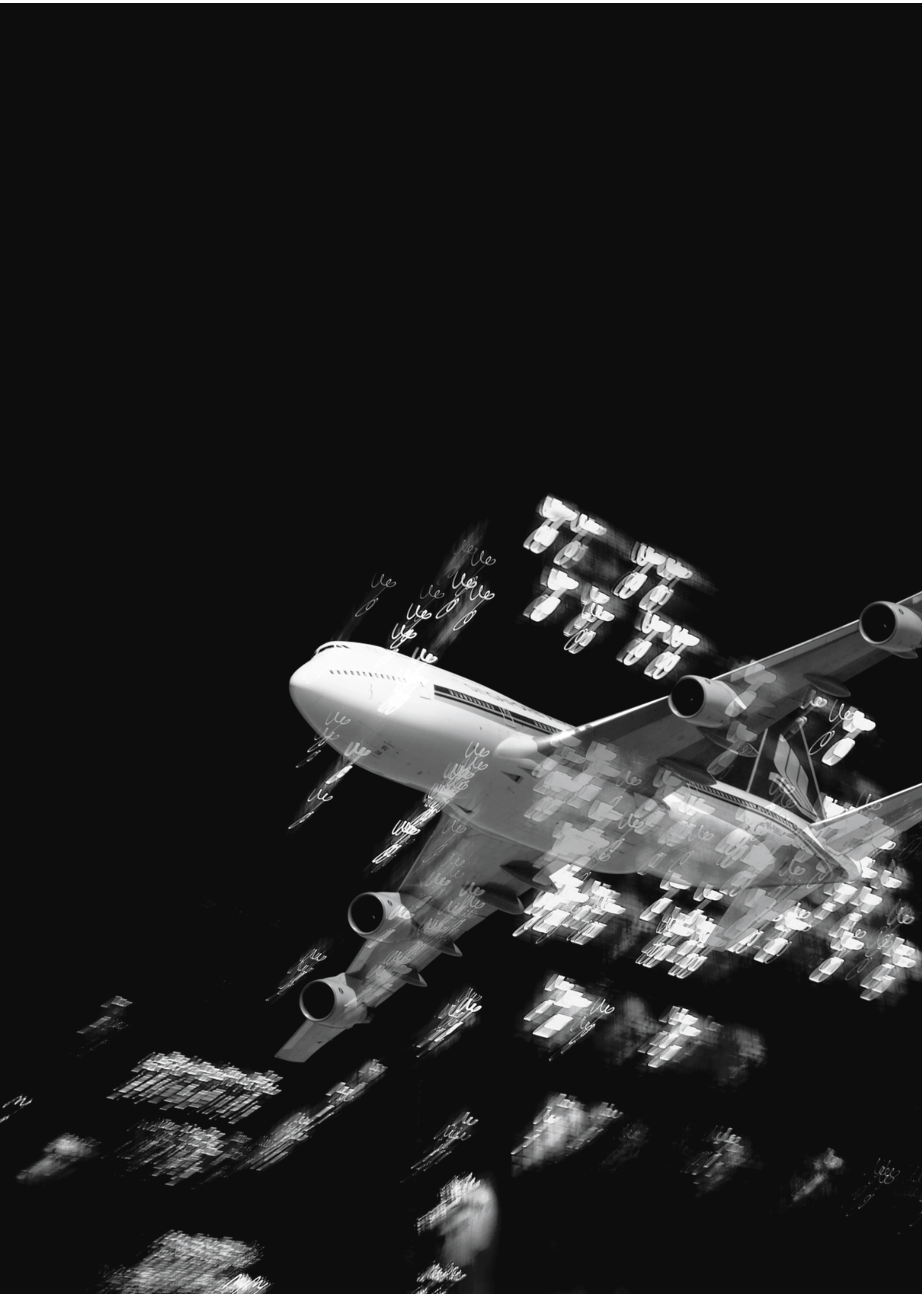
Our products are on virtually all military and civil aircraft. Some 19,000 wheel and brake assemblies alone are on over 30 different aircraft types—just one of the many technologies offered by specialist Meggitt businesses, all looking after their products, round the clock, all year, lifelong. Maintenance, repair and overhaul services, Aircraft on Ground support, technical helplines, product repair training, spares provisioning and site visits are backed by in-house, return-to-service test facilities.

We don't just overhaul units. Our total care packages support customers with inventory control, spares distribution and third party supply management, so equipment is up to the mark, on the spot. And our products are the real thing: all OEM-specified to the original design, so they're accurate, not just close.

Now we are integrating the aftermarket capability of the group in our expanding Singapore facility. This new Meggitt aftermarket business model, which is already bringing new reach and power to our airline services, will become a full-service plant, supporting all Meggitt products in the region.

Paul Brown Vice-President
Meggitt Asia Pacific, Singapore

After nearly 20 years living and working in Asia, I have a deep affinity for the region. Armed with a chemical engineering degree, my career started in technical sales for Johnson Matthey. I moved to Hong Kong in 1987 to develop their catalytic systems business in Asia and then to Singapore to set up manufacturing operations, culminating in my leadership of JM's south east Asian semiconductor business. In 2003, after three years heading up a global business segment of Honeywell Electronic Materials, I accepted a new challenge, starting up Meggitt's first production facility in China. In parallel, we established an international purchasing organisation in Singapore, providing strategic sourcing for Meggitt businesses worldwide. Right now, being at Meggitt in Asia means being part of a rapid expansion in manufacturing, sourcing, sales and aftermarket services in the world's fastest growing aerospace market. I thrive on leading these initiatives—and the opportunity to continue my exploration of this fascinating region.



Board of directors

Membership of committees

* Audit
+ Nominations
Ø Remuneration

Sir Colin Terry KBE CB FREng (62)
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 Inflite Engineering Services Limited and for three years as Chairman of the Engineering Council (UK). Sir Colin is President of the Royal Aeronautical Society. He is a Chartered Engineer.

Terry Twigger (56)
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.

Philip Green (49)
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.

Stephen Young (50)
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.

Peter Hill (53)
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 is an Independent Board Member of United Kingdom Trade & Investment, and was a non-executive director of Oxford Instruments plc from 1999 until May 2004. He is a Chartered Engineer and holds an MBA.

Sir Alan Cox CBE (69)
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.

David Robins (56)
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.


Sir Colin Terry KBE CB FREng


Terry Twigger


Philip Green


Stephen Young


Peter Hill


Sir Alan Cox CBE


David Robins

Financial statements 2005

Report of the directors

The directors submit their annual report and the audited financial statements for the year ended 31 December 2005. The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Company financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

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 14 to 17 and 20 to 21.

Group Results

Profit before taxation amounted to £88,127,000 (2004: £70,656,000). The profit attributable to ordinary shareholders amounted to £66,235,000 (2004: £52,540,000) which after dividends paid of £30,994,000 (2004: £24,493,000) resulted in a retained profit for the financial year of £35,241,000 (2004: £28,047,000).

Dividends

The directors recommend the payment of a final dividend of 5.30p net per ordinary 5p share (2004: 4.80p) to be paid on 7 July 2006 to those members on the register at close of business on 31 March 2006.

An interim dividend of 2.40p (2004: 2.20p) was paid on 2 December 2005. If the final dividend recommended is approved the total ordinary dividend for the year will amount to 7.70p net per share (2004: 7.00p). Dividends are paid to shareholders net of a non-refundable tax credit of 10%. Shareholders liable to higher rate income tax will have additional tax to pay. Shareholders will be offered a scrip dividend alternative under the Share Dividend Plan in respect of the proposed final dividend.

Share Dividend Plan

During 2005 the Company made available the Meggitt PLC Share Dividend Plan in respect of the dividends paid in July 2005 (being the final dividend for 2004) and in December 2005 (being the interim dividend for 2005). The amount of dividend necessary to give an entitlement to one new ordinary share was fixed at 262.95p and 311.65p 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 2005 were 289.00p and 336.50p 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 1 August 2005, Meggitt completed the acquisition of the business and assets of Avery-Hardoll from Cobham PLC for a consideration of £8.4 million paid in cash.

On 10 November 2005, Meggitt completed the acquisition of Européenne de Conception et d'Etudes Technologiques (ECET) and Sensorex from Aero Components & Systems for a consideration of £7.1 million paid in cash.

Share Capital

The authorised share capital of the Company together with details of shares issued during the financial year is shown in note 36 on page 70. A further 342,814 ordinary shares have been issued between 31 December 2005 and 24 February 2006 as a result of the exercise of share options.

Share Incentive Plan (the 'Plan')

The Trustee of the Plan has been allocated £550,000 from the 2005 profits to acquire ordinary shares in Meggitt PLC for eligible employees (2004: £505,000).

Directors and their Interests

The directors who served during the year were: 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. Dr R W Greaves and Mr J J Stobie resigned on 1 March 2005 in order that the balance of the board would comply with the requirements of the Combined Code.

In accordance with Article 75 of the Company's Articles of Association, Sir Colin Terry and Sir Alan Cox 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 38 and 40 to 41 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.

The directors have the benefit of 'qualifying third party indemnity provisions' for the purposes of sections 309A to 309C of the Companies Act 1985 pursuant to the Company's Articles of Association. A copy of the Articles of Association is available for inspection at the Company's registered office. It is proposed that the indemnity provisions in the Articles of Association will be amended at the Annual General Meeting (AGM) to take advantage of recent changes in legislation allowing companies to grant wider indemnities than previously permitted.

Substantial Shareholdings

As at 24 February 2006 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	65,295,032	15.06%
Aviva plc	25,970,600	5.99%
Legal and General Group plc	20,507,669	4.73%
Prudential plc	17,429,351	4.02%

Social Responsibility

The Board takes regular account of the significance of social, environmental and ethical matters and a report can be found on page 24. The following specific matters fall under the broad definition of Social Responsibility:

Political Contributions
In accordance with the Group's policy, no contributions were made to political parties or political organisations (2004: £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 2005 amounted to £66,000 (2004: £35,000). In addition, Meggitt PLC gave financial assistance to local organisations amounting to £5,000 (2004: £5,000). There are also many examples throughout the Group of non-financial assistance being provided to local organisations.

Employee Participation
The Company is aware of the importance of two-way communication with employees. Its operating subsidiaries rely on communication and consultation at site level using the best methods as determined by local needs and industry practice. In addition employees receive 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, the Executive Share Option Schemes and the Equity Participation Plan.

It is estimated that, when the current year's allocation has been made by the Trustee under the Share Incentive Plan, approximately 1,690 UK employees will hold shares in the Company. The number of employees contributing to the Savings Related Share Option Scheme at 31 December 2005 was 823.

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 2005 were 19 (2004: 34 days). Group creditor days at 31 December 2005 were 77 (2004: 82 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 2005 were 75 (2004: 67 days).

Health and Safety at Work
The Company continues to carry out its responsibility for securing the health, safety and welfare at work of employees of the Company and its subsidiaries and for protecting other persons against risks to health and safety arising out of, or in connection with, the activities at work of those employees. Every reasonable effort is made to provide safe 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.

Ethics and Business Conduct
During the year the Group adopted an Ethics and Business Conduct Policy and a Code of Conduct. All employees will receive a copy of the Code of Conduct and training. Ethics and Business Conduct are reviewed regularly by a Committee of the Board. The Group has appointed an Ethics and Business Conduct Manager.

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 2005 on research and development amounted to £30,766,000 (2004: £27,650,000), of which £8,024,000 (2004: £5,010,000) was capitalised in accordance with the Group accounting policy (see note 2 to the financial statements).

Financial Risk Management

The Group's policies on financial risk management are set out in note 3 of the Group's financial statements.

Details of Resolutions to be Proposed at the Annual General Meeting

Details of the Annual General Meeting to be held on 11 May 2006, 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) approve payments to organisations of no more than £50,000 in total, which might inadvertently be interpreted as donations to EU political organisations under the Political Parties, Elections and Referendums Act 2000, although it is not the policy of the Company to make donations to political parties and the directors have no intention of changing that policy, neither do they intend to make any such donations, (iv) to amend Article 142 of the Company's Articles of Association to reflect the new legislation regarding indemnification of directors.

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

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 that the financial statements comply with IFRS; 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
6 March 2006

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 35. 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 36.

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, from the Group Finance Director on financial performance and treasury matters and from the Group Corporate Affairs Director on legal and compliance issues. Approval of the Group budget and forecasts, strategic issues, organisational development and other items (including such matters as capital structure, financial reporting and controls) are considered in line with a schedule of matters reserved for the decision of the Board. If a decision is not reserved for the Board then authority lies, in accordance with an authorisation policy, with one of the Finance Committee of the Board, the Chief Executive, an executive director or the managing directors of the individual business units.

The Chairman is 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 2005 and attendance is shown in the following table:

	No. of meetings during year	No. of meetings attended
Audit		
Sir Alan Cox (Chairman)	3	3
Mr P J Hill	3	3
Mr D A Robins	3	3
Remuneration		
Mr D A Robins (Chairman)	4	4
Sir Alan Cox	4	4
Mr P J Hill	4	4
Nominations		
Sir Colin Terry (Chairman)	1	1
Sir Alan Cox	1	1
Mr D A Robins	1	1
Mr P J Hill	1	1
Mr T Twigger	1	1

The full Board met on eight occasions and these meetings were attended by all directors, except Mr Robins who was excused from one meeting. The Board visited a number of the Group's businesses and met with their senior management.

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 in January, 2006.

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 has been approved and agreed in writing by the Board. 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 2005 to 1 March 2005 the Board consisted of five executive and four non executive directors of whom three were considered to be independent. From 1 March 2005 (when Dr R W Greaves and Mr J J Stobie resigned) there have been three executive directors and three independent non executive directors in addition to the Chairman.

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. Notwithstanding his appointment as a director for more than nine years, the Board considers Sir Alan has retained his independence.

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. The terms of reference for the Nominations Committee are available on the Company's website.

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.

The Nominations Committee met during the year to discuss a successor for Sir Alan Cox as Chairman of the Audit Committee and the division of Mr Green's role as an executive director and company secretary.

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 Nominations Committee has agreed to appoint a Company Secretary in addition to Mr Green continuing as an executive director responsible for legal, compliance and administrative matters as soon as a suitable candidate can be recruited.

6. Performance Evaluation

In January, 2006 the Board conducted a self-evaluation assessment of itself and its committees. The Chairman led a discussion to consider the Board's "behaviours" and "processes" and the Board agreed its high level objectives for the year ahead. The Board was satisfied with its effectiveness. The Audit and Remuneration Committees have also considered their own performance during the year. 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 Committee follows schedule A of the Code.

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 during late 2004 and updated their advice in late 2005. The Committee considered this advice when reviewing salaries to take effect from 1 January 2006.

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.

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.

In order that the Board can review the effectiveness of the system of internal control, the following procedures are in place:

1. The Board receives regular reports at Board Meetings on the state of the business from the Chief Executive and the Group Finance Director and regularly receives a report on legal and compliance activities from the Group Corporate Affairs 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.
3. The Board has an Ethics and Export Compliance Committee which quarterly reviews these areas of compliance.
4. Annually a review of the risk environment and the Group's key risks is presented to the Board for their consideration.
5. Every month, each business submits detailed operating and financial reports covering all aspects of their performance. These are reviewed and, subject to materiality, issues are communicated to the Management Board and main Board.
6. 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.
7. Annually, the Board receives a report on the insurance coverage in place and the risks which remain uninsured.

The on-going process for identifying, evaluating and managing the significant risks faced by the Group is as follows:

1. Following a series of risk workshops facilitated by risk professionals at business, divisional and Group level to identify and analyse the key risks faced by the Group, the Board reviewed the list of those risks and the mitigation plan. These risks will be regularly reviewed by the individual operating businesses, by divisional management and then, by exception, by the Management Board.

2. There is a regular review of the performance of each business undertaken by the executive directors and senior Group management.
3. There is a Group Procedures Manual, the purpose of which is to establish appropriate authority levels throughout the Group to cover certain items of expenditure, financial commitments and other matters, which are regarded as essential in order to ensure that overall financial control is maintained throughout the Group.
4. There is a comprehensive insurance programme.
5. There are programmes for business continuity, health and safety, environmental, export compliance and ethics.
6. There is an on-going programme of assurance activities including internal audit, external audit, external tax compliance review, environmental audits, health and safety audits, property risk reviews and export regulation compliance reviews.

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

The Board considers that there is considerable comfort in the fact that the Group's cash inflow from operating activities represented 102% of underlying operating profit in 2005.

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 2005 the Committee met on three occasions. The external auditors attended these meetings to discuss the scope and the final results of the 2004 audit in detail (which included the main risks facing the Group) the strategy for the 2005 audit, the 'hard close' results of the 2005 audit along with any other items which the auditors or the non executive directors wished to discuss. The Audit Committee Chairman also separately meets the external auditors in advance of each Audit Committee meeting. The Audit Committee also reviewed the internal control environment of the Group and received reports from Internal Audit as described above. The progress of Internal Audit is considered in the Audit Committee meetings.

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.
- 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.
- The Audit Committee is required to approve any fees to the external auditors in excess of £100,000.

An Ethics Line exists which enables 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 2005 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 – until 1 March 2005 at least half of the Board, excluding the Chairman, did not comprise independent non executive directors. This was rectified following the resignations of Dr R W Greaves and Mr J J Stobie on 1 March 2005.
b) B.2.1 – Sir Alan Cox is a member of the Remuneration Committee. Notwithstanding his appointment as a non executive director for more than nine years, the Board considers that he remains entirely independent and that his extensive experience in industry and commerce make him a valuable member of the Committee.
c) C.3.1 – Sir Alan Cox is Chairman of the Audit Committee. Notwithstanding his appointment as a non executive director for more than nine years, the Board considers that he remains entirely independent. The Board believes it is in the interests of the Company for Sir Alan to continue to be a member of and to Chair the Audit Committee due to his extensive experience gained as a former member of the Financial Reporting Council, and in industry and commerce.

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 20 and 21.

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') consisted solely of three independent non executive directors: Mr D A Robins (Committee Chairman), Sir Alan Cox and Mr P J Hill. 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. In late 2004, Towers Perrin conducted a benchmark review of the executive directors' salaries and total remuneration packages and in late 2005 updated this advice. This was taken into account for the salary review which took effect from 1 January 2006. Towers Perrin also recommended new share incentive schemes for the executive directors and other senior executives to replace the Executive Share Option and Equity Participation Schemes which would expire in 2006. These new schemes were approved by the shareholders at the Annual General Meeting in May 2005 and the first awards were made during the year.

The terms of reference for the Remuneration Committee 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 2006 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 Plan;
- eligibility for a grant of options under the Company's Executive Share Option Scheme;
- benefits which include membership of the Executive Pension Plan and the funded unapproved retirement and death benefits scheme ('FURBS'), fully expensed car and free medical insurance for the individual and their immediate family. From April 2006 contributions from the Company to the FURBS will be replaced by a Pension Allowance paid direct to the executive directors.

Following introduction of the Equity Participation Plan and Executive Share Option Scheme during 2005 after shareholder approval, the mix between fixed and variable pay is broadly 50/50 for the executive directors.

The 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 share schemes 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.

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 salary review, which took account of the continuing excellent performance of the Company and also recognised that the executive directors' bonus payments were no longer pensionable with effect from 1 January 2005, the basic salaries for executive directors have been increased, in line with the above policy, with effect from 1 January 2006 as follows:

T Twigger	£482,000
P E Green	£214,000
S G Young	£278,000

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 the individual's contribution to that performance. The maximum bonus which can be earned by any executive director is 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 directors in the future. Achievement of Group profit and cash targets with reference to the Group budget, together with the individual's personal performance and contribution, are the criteria for awards. The level of bonus payments awarded to the executive directors for 2005 ranged from 107% to 116% of basic salary at 31 December 2005 and 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; the increase in final dividend; the continuing strong cash flow from operating activities and the successful integration of acquisitions.

Policy on Share Schemes

The Company's Equity Participation Plan and Executive Share Option Scheme 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 Plan on an annual basis and grants are considered under the Executive Share Option Scheme subject to regulatory and scheme limits. During 2005 the new Equity Participation Plan and Executive Share Option Scheme were introduced following shareholder approval. No new awards will be made under the 1996 Equity Participation Scheme or 1996 Executive Share Option Schemes but existing awards will vest in accordance with the rules of those schemes.

The annual cost of these new plans for awards made to executive directors and 176 senior executives across the Group is in the region of £5 million, although it could be significantly lower if the earnings per share 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 Scheme, or an allocation of shares under the Equity Participation Plan, 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.

Meggitt Equity Participation Plan 2005

An annual award of shares will be made under the Meggitt Equity Participation Plan (the "Plan") to executive directors of 75% of basic salary ("basic award"). The number of shares which are the subject of the award is calculated by dividing the value of the award by the average middle market quotations of Meggitt Ordinary Shares on the London Stock Exchange over the 30 dealing days prior to the date of the award.

The individual limit will increase if an executive director invests an amount, not to exceed 25% of net basic salary, in Meggitt shares. In that event, an executive director can receive a further award of up to 50% of basic salary ("matching award"). Therefore, executive directors can receive a total amount of 125% of basic salary (ie the 75% for a basic award with a maximum of a further 50% of basic salary) if the director makes the maximum investment permitted under the Plan.

The proportion of the basic award, if any, that an executive director will ultimately receive, will depend on Meggitt's performance during a three year period commencing at the beginning of the financial year in which the award is made ("measurement period"). Performance will be measured by comparing the Total Shareholder Return ("TSR") achieved by Meggitt with that of other companies in a comparator group chosen by the Remuneration Committee. The comparator group comprises the following companies which are in similar sectors and are of a relevant size and international spread to Meggitt:

BAE Systems	Rolls-Royce Group
Bodycote International	Rotork
Cobham	Smiths Group
FKI	Spectris
Halma	Spirox-Sarco Engineering
IMI	Spirent
Invensys	Tomkins
Marconi Corporation	Ultra Electronics Holdings
Morgan Crucible Company (The)	VT Group
Renishaw	Weir Group

Following its de-listing the Marconi Corporation will be replaced in the comparator group with effect from 1 January 2006. At the date of this report the replacement had not been finalised.

No shares will vest if Meggitt's TSR performance is below the 50th percentile. At the 50th percentile, 30% of the shares that are subject of the award will vest, rising on a straight-line basis to 100% vesting at the 75th percentile and above. Notwithstanding Meggitt's relative TSR performance, shares will only become eligible for release to the extent that the Remuneration Committee is satisfied that it is justified by the underlying financial performance of Meggitt over the measurement period.

Vesting of the matching award will depend on the Company's TSR performance as outlined above and on the executive retaining his investment in Meggitt shares during the measurement period. No matching shares will vest if Meggitt's TSR performance is below the 50th percentile. At the 50th percentile, 60% of the shares subject to the matching award will vest, rising on a straight-line basis to 200% vesting at the 75th percentile and above.

Shares subject to awards will not normally be released until the third anniversary of the award date.

The first awards under the Plan were made during the year.

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.

Meggitt Executive Share Option Scheme 2005

An annual grant of options will be made to executive directors. The aggregate market value of shares put under option each year will be two times basic salary. The price payable for each share under option will be the market value for such a share at the time the option is granted.

The performance condition for the grant of options to executive directors is linked to the aggregate increase in earnings per share ("EPS") over the three year period following the financial year ending immediately before the date of grant. An option can be exercised in respect of 30% of the shares subject to the option if the aggregate growth in EPS is at least equal to the increase in the Retail Prices Index ("RPI") plus 5% per annum. The option can be exercised in respect of all the shares subject to the option if the aggregate growth in EPS is at least equal to RPI plus 8% per annum. For growth in EPS between 5% per annum and 8% per annum, the option can be exercised over, between 30% and 100% of the shares under option determined on a straight-line basis between these points. There is no retesting of the performance condition. The Remuneration Committee has considered the impact of changes to accounting standards and will endeavour to compare EPS on a consistent basis.

The first grants under this scheme were made during the year.

The Company's earnings per share performance during the last five years is shown on page 92.

Meggitt PLC Share Incentive Plan ("SIP")

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 2004 and 31 December 2005 were as follows:

	Shareholding Ordinary shares of 5p each 2005	2004
Sir Colin Terry	**2,284**	2,284
T Twigger	**374,462**	353,047
Sir Alan Cox	**20,000**	20,000
P E Green	**185,174**	164,326
P J Hill	**6,000**	–
D A Robins	**38,600**	37,619
S G Young	**31,825**	14,285

The executive directors were allocated shares at an initial market value of 270.00p under the Share Incentive Plan during 2005 as follows:

	Ordinary shares of 5p each
T Twigger	1,107
P E Green	1,092
S G Young	1,002

These shares have been included in the share interests shown in the table above. Details of directors' share options are shown on pages 40 to 41.

Directors' Pension Arrangements

The executive directors are members of the Meggitt Executive Pension Plan (the "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 ⅔ final pensionable salary. The executive directors' pensions are restricted by the Inland Revenue 'pensions cap' which is in effect their pensionable salary for the MEPP. As the executive 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"). 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 executive directors and all UK employees (after taking into account the employee contribution) is set following the receipt of actuarial advice from Mercer Human Resource Consulting. Details of any changes in pension entitlements arising in 2005 are shown on page 39. With effect from 1 January 2005 bonus payments to executive directors have not been pensionable. There are no unfunded pension promises or similar arrangements for directors.

With effect from 6 April 2006 no further contributions will be made to the Furbs and a Pension Allowance will be paid instead to the executive directors in order that they might make their own arrangements for retirement savings. The Pension Allowance will be calculated as 50% of the amount by which the executive director's basic salary exceeds the MEPP Scheme Cap of £112,500. The cap will increase annually in line with the Lifetime Allowance.

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 twelve months and they are required to give the Company notice of six 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%.

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 2005 are shown on page 39.

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 Re-Election

At the forthcoming Annual General Meeting, Sir Colin Terry and Sir Alan Cox will retire by rotation and are being proposed for re-election.

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 2005 no executive director was a director of a public company.

Audited Information

Details of Directors' Remuneration

	Basic salary 2005 £	Fees 2005 £	Benefits 2005 £	Bonus payments 2005 £	Total emoluments excluding pension 2005 £	2004 £
Executive directors						
T Twigger	**450,000**	**–**	**26,915**	**505,750**	**982,665**	757,573
P E Green	**200,000**	**–**	**12,728**	**231,500**	**444,228**	370,593
S G Young	**260,000**	**–**	**19,861**	**277,250**	**557,111**	494,424
Non executive directors						
Sir Colin Terry	**–**	**100,000**	**–**	**–**	**100,000**	53,500
Sir Alan Cox	**–**	**52,750**	**4,641**	**–**	**57,391**	47,209
P J Hill	**–**	**37,000**	**–**	**–**	**37,000**	32,000
D A Robins	**–**	**42,000**	**–**	**–**	**42,000**	32,000
Former directors						
R W Greaves	**31,938**	**–**	**2,643**	**–**	**34,581**	345,224
J J Stobie	**38,701**	**–**	**1,299**	**–**	**40,000**	565,180
M A Stacey	**–**	**–**	**–**	**–**	**–**	37,500
Total	**980,639**	**231,750**	**68,087**	**1,014,500**	**2,294,976**	2,735,203

Directors' Pension Benefits

Directors' membership of the various pension schemes is shown on page 38.

	T Twigger £	P E Green £	S G Young £
Meggitt Executive Pension Plan			
Accumulated total accrued pension at 31 December 2004 as previously reported	19,400	35,400	3,400
Real increase in accrued pension in year excluding inflation	3,900	3,800	3,500
Total increase in accrued pension in year	24,300	4,800	3,600
Accumulated total accrued pension at 31 December 2005	43,700	40,200	7,000
Transfer value (GN11 basis) at 31 December 2004 as previously reported	250,100	329,400	34,400
Real increase in transfer value excluding inflation less directors' contributions	65,000	45,900	36,900
Directors' contributions	5,300	5,300	5,300
Other increases in transfer value	327,400	63,400	8,000
Transfer value (GN11 basis) at 31 December 2005	647,800	444,000	84,600

Increases in the accumulated total accrued pension and transfer value in 2005 for T Twigger include a change in valuation methodology to be consistent with the valuation of the other directors' pension benefits.

	T Twigger £	P E Green £	S G Young £
Funded Unapproved Retirement and Death Benefits Scheme			
Company Payments – 2004	151,980	47,120	56,650
Company Payments – 2005	151,932	41,932	68,332

	J J Stobie £
Whittaker Corporation Employees' Pension Plan	
Accumulated total accrued pension at 31 December 2004	18,200
Increase in accrued pension in year	–
Exchange differences	2,150
Accumulated total accrued pension at 31 December 2005	20,350
Transfer value at 31 December 2004	69,500
Real increase in transfer value excluding inflation	–
Other increases in transfer value	20,600
Exchange differences	8,200
Transfer value at 31 December 2005	98,300
Whittaker Corporation Partnership Plan (401k)	
Company payments – 2004	11,307
– 2005	9,923

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 £33,151 (2004: £31,097) in respect of Dr R W Greaves.

Details of Directors' Remuneration continued

The directors' interests in the Meggitt Equity Participation Scheme 1996 and movements therein during the year are set out below:

	Date of allocation	Value of allocation £	Number of shares at 1 Jan 2005	Allocated during 2005	Transferred to directors	at 31 Dec 2005	Market price at actual date of transfer	First date for transfer to directors
T Twigger	22.03.02	54,999	32,203	–	32,203	–	278.50p	22.03.05
	14.04.03	137,500	90,020	–	–	90,020	–	14.04.06
	09.03.05	150,000	–	55,147	–	55,147	–	09.03.08
P E Green	22.03.02	24,999	14,637	–	14,637	–	278.50p	22.03.05
	14.04.03	62,500	40,919	–	–	40,919	–	14.04.06
	09.03.05	70,000	–	25,735	–	25,735	–	09.03.08
S G Young	09.03.05	92,000	–	33,823	–	33,823	–	09.03.08

The shares were transferred for no consideration.

The directors' interests in the Meggitt Equity Participation Plan 2005 and movements therein during the year are set out below:

	Date of award	Value of award £	Number of shares Awarded during 2005	at 31 Dec 2005	Market price at actual date of transfer	First date for transfer to directors
T Twigger						
Basic Award	10.10.05	337,500	105,982	105,982	–	10.10.08
Matching Award	10.10.05	225,000	69,444	69,444	–	10.10.08
P E Green						
Basic Award	10.10.05	150,000	47,103	47,103	–	10.10.08
Matching Award	10.10.05	100,000	30,864	30,864	–	10.10.08
S G Young						
Basic Award	10.10.05	195,000	61,234	61,234	–	10.10.08
Matching Award	10.10.05	130,000	40,123	40,123	–	10.10.08

The directors' interests in options over the ordinary share capital of the Company and movements therein during the year are set out below and on page 41:

	Number of options at 1 Jan 2005	Granted	Exercised	at 31 Dec 2005	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
T Twigger								
1996 No 1 Scheme	19,838	–	–	19,838	151.22p	–	20.04.01	19.04.08
1996 No 2 Scheme	111,054	–	111,054	–	157.58p	324.00p	01.10.02	30.09.06
	5,902	–	–	5,902	189.36p	–	14.12.03	13.12.07
	206,455	–	206,455	–	133.20p	324.00p	27.09.04	26.09.08
	172,132	–	–	172,132	159.76p	–	17.10.05	16.10.09
	148,056	–	–	148,056	209.38p	–	02.10.06	01.10.10
	152,439	–	–	152,439	246.00p	–	06.10.07	05.10.11
2005 Scheme, Part B	–	276,497	–	276,497	325.50p	–	10.10.08	09.10.15
Sharesave Scheme	2,953	–	–	2,953	127.98p	–	01.01.06	30.06.06
	–	2,578	–	2,578	220.50p	–	01.06.08	30.11.08
	818,829	279,075	317,509	780,395				

	Number of options at 1 Jan 2005	Granted	Exercised	at 31 Dec 2005	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
P E Green								
1996 No 1 Scheme	8,125	–	–	8,125	101.52p	–	27.03.00	26.03.07
	14,382	–	–	14,382	151.22p	–	20.04.01	19.04.08
1996 No 2 Scheme	54,007	–	54,007	–	157.58p	324.00p	01.10.02	30.09.06
	93,843	–	–	93,843	133.20p	–	27.09.04	26.09.08
	78,241	–	–	78,241	159.76p	–	17.10.05	16.10.09
	71,640	–	–	71,640	209.38p	–	02.10.06	01.10.10
	71,138	–	–	71,138	246.00p	–	06.10.07	05.10.11
2005 Scheme, Part B	–	122,887	–	122,887	325.50p	–	10.10.08	09.10.15
Sharesave Scheme	2,912	–	2,912	–	133.79p	324.50p	01.10.05	31.03.06
	4,576	–	–	4,576	147.48p	–	01.01.06	30.06.06
	5,133	–	–	5,133	127.98p	–	01.01.08	30.06.08
	–	1,498	–	1,498	220.50p	–	01.06.10	30.11.10
	403,997	124,385	56,919	471,463				

	Number of options							
	at 1 Jan 2005	Granted	Exercised	at 31 Dec 2005	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
S G Young								
1996 No.1 Scheme	14,725	–	–	14,725	203.72p	–	01.04.07	31.03.14
1996 No.2 Scheme	211,074	–	–	211,074	203.72p	–	01.04.07	31.03.11
2005 Scheme, Part B	–	159,754	–	159,754	325.50p	–	10.10.08	09.10.15
Sharesave Scheme	–	8,106	–	8,106	220.50p	–	01.06.12	30.11.12
	225,799	167,860	–	393,659				

No non executive directors held any options over the Company's shares at any time during the relevant periods. Between 1 January 2006 and 24 February 2006 (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 – acquired 69 shares through the Meggitt PLC Share Incentive Plan and exercised his option to acquire 2,953 shares through the Meggitt PLC 1998 Sharesave Scheme.

Mr S G Young – acquired 69 shares through the Meggitt PLC Share Incentive Plan.

Mr P E Green – acquired 69 shares through the Meggitt PLC Share Incentive Plan and exercised his option to acquire 4,576 shares through the Meggitt PLC 1998 Sharesave Scheme.

The market price of the shares at 31 December 2005 was 362.00p and the range during the year was 252.00p to 362.00p. Options may, in certain circumstances, be exercised or lapse earlier than the dates shown on page 40 and above.

Gains made on exercise of directors' share options	Exercise date	Options exercised	Gain 2005 £'000	Gain 2004 £'000
T Twigger	10.10.05	317,509	579	65
P E Green	03.10.05	2,912	6	–
	10.10.05	54,007	90	39
			675	**104**

Gains in 2005 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 40 and above.

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

By order of the Board

D A Robins
Chairman, Remuneration Committee
6 March 2006

Independent Auditors' Report to the Shareholders of Meggitt PLC

We have audited the group financial statements of Meggitt PLC for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expenditure and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Meggitt PLC for the year ended 31 December 2005 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the group financial statements, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only 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, the five-year record and the other items listed in the contents on page 1. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements 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 group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
6 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Continuing operations			
Revenue	5	**616,317**	476,573
Cost of sales	7	**(338,136)**	(269,288)
Gross profit		**278,181**	207,285
Net operating costs	7	**(175,740)**	(125,234)
Operating profit*		**102,441**	82,051
Finance income	12	**4,874**	1,094
Finance costs	13	**(19,188)**	(12,489)
Net finance costs		**(14,314)**	(11,395)
Profit before tax from continuing operations**		**88,127**	70,656
Tax	14	**(21,892)**	(18,116)
Profit for the year from continuing operations attributable to equity shareholders		**66,235**	52,540
Earnings per share – basic	16	**15.4p**	13.9p
Earnings per share – diluted	16	**15.3p**	13.8p
Dividends paid to equity shareholders	17	**30,994**	24,493
* Underlying operating profit	10	**130,599**	101,694
** Underlying profit before tax	10	**116,285**	90,299

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 £'000	2004 £'000
Non-current assets			
Goodwill	19	**551,361**	515,767
Development costs	20	**21,692**	14,429
Other intangible assets	21	**177,491**	185,085
Property, plant and equipment	22	**116,941**	111,550
Trade and other receivables	25	**68,018**	46,652
Deferred tax assets	33	**32,034**	28,850
Investments available for sale	23	**1,057**	1,075
		968,594	903,408
Current assets			
Inventories	24	**134,341**	105,342
Trade and other receivables	25	**138,693**	130,001
Derivative financial instruments	31	**51**	–
Current tax recoverable		**6,027**	106
Cash and cash equivalents	26	**45,490**	42,732
		324,602	278,181
Total assets		**1,293,196**	1,181,589
Current liabilities			
Trade and other payables	27	**(168,229)**	(140,838)
Derivative financial instruments	31	**(4,465)**	–
Current tax liabilities		**(20,369)**	(16,124)
Bank and other borrowings	29	**(12,957)**	(5,914)
Provisions	32	**(18,447)**	(21,604)
		(224,467)	(184,480)
Net current assets		**100,135**	93,701
Non-current liabilities			
Trade and other payables	28	**(4,623)**	(1,975)
Derivative financial instruments	31	**(1,555)**	–
Deferred tax liabilities	33	**(52,468)**	(51,136)
Bank and other borrowings	29	**(346,818)**	(366,242)
Provisions	32	**(67,642)**	(40,382)
Retirement benefit obligations	34	**(98,217)**	(74,954)
		(571,323)	(534,689)
Total liabilities		**(795,790)**	(719,169)
Net assets		**497,406**	462,420
Equity			
Share capital	36	**21,660**	21,481
Share premium	39	**350,239**	342,636
Other reserves	39	**14,118**	14,118
Hedging and translation reserve	39	**(1,091)**	(5,557)
Retained earnings	39	**112,480**	89,742
Capital and reserves attributable to equity holders of the Company		**497,406**	462,420

The financial statements were approved by the Board of Directors on 6 March 2006 and signed on its behalf by:

T Twigger
Director

S G Young
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Cash inflow from operations before exceptional operating costs		**132,784**	111,012
Cash outflow from exceptional operating costs	11	**(5,533)**	(3,088)
Cash inflow from operations	41	**127,251**	107,924
Interest received		**1,431**	1,094
Interest paid		**(14,862)**	(11,223)
Debt issue costs		**(285)**	(1,122)
Taxation		**(21,209)**	(18,578)
Cash inflow from operating activities		**92,326**	78,095
Purchase of subsidiary undertakings	43	**518**	(440,447)
Net cash acquired with subsidiaries	43	**852**	6,914
Capitalised internal development costs	20	**(8,024)**	(5,010)
Purchase of other intangible assets	21	**(3,505)**	(22)
Purchase of property, plant and equipment		**(16,215)**	(14,159)
Proceeds from disposal of property, plant and equipment		**514**	192
Proceeds from disposal of investments available for sale		**18**	25
Cash outflow from investing activities		**(25,842)**	(452,507)
Dividends paid to Company's shareholders	17	**(26,015)**	(13,529)
Issue of equity share capital		**2,803**	188,542
Expenses of issue of ordinary share capital		**–**	(5,625)
Proceeds from borrowings		**81,182**	253,369
Repayments of borrowings		**(124,605)**	(28,906)
Cash (outflow)/inflow from financing activities		**(66,635)**	393,851
Net (decrease)/increase in cash and bank overdrafts		**(151)**	19,439
Cash and bank overdrafts at start of year		**42,343**	22,670
Exchange gains on cash and bank overdrafts		**3,298**	234
Cash and bank overdrafts at end of year	26	**45,490**	42,343

Consolidated Statement of Recognised Income and Expenditure

For the year ended 31 December 2005

	Retained earnings £'000	Hedging and translation reserve £'000
Balance at 1 January 2004	53,892	–
Actuarial gains	6,957	–
Currency translation differences	–	(5,557)
Profit for the financial year	52,540	–
Employee share option schemes:		
Value of services provided	846	–
Dividends	(24,493)	–
Total recognised income and expense for the year	35,850	(5,557)
Balance at 31 December 2004	89,742	(5,557)
Actuarial losses	(16,400)	–
Currency translation differences	–	4,466
Profit for the financial year	66,235	–
Employee share option schemes:		
Value of services provided	7	–
Dividends	(30,994)	–
Total recognised income and expense for the year	18,848	4,466
Adoption of IAS 32 & IAS 39	3,890	–
Balance at 31 December 2005	**112,480**	**(1,091)**

1. Basis of preparation

Prior to 2005 the Group prepared its annual financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP). For the year ended 31 December 2005 the Group is required to prepare its annual financial statements in accordance with International Financial Reporting Standards (IFRS). Accordingly these financial statements have been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investments available for sale and financial assets and liabilities at fair value.

The Group's transition date for IFRS is 1 January 2004. Comparative data for 2004 has been restated to conform to the new accounting policies in note 2. These new policies reflect exemptions from restating certain financial information as permitted under IFRS 1 ('First-time Adoption of International Financial Reporting Standards'). The exemptions taken by the Group are stated below:

- Under IAS 16 ('Property, Plant and Equipment') the Group has elected to treat the revalued amount of land and buildings revalued prior to 1 January 2004 as deemed cost.
- Under IAS 21 ('The Effects of Changes in Foreign Exchange Rates') cumulative translation differences arising on the consolidation of foreign subsidiaries are required to be held in a separate reserve within equity. The cumulative translation differences at 1 January 2004 have been deemed to be nil.
- IAS 39 ('Financial Instruments: Recognition and Measurement') has been applied with effect from 1 January 2005 and not to comparative data. The comparative results for 2004 in so far as they relate to financial instruments have been stated in accordance with UK GAAP as allowed by IFRS 1.
- IFRS 2 ('Share-based Payment') has been applied to all the awards after 7 November 2002 that remained unvested at 1 January 2005. Earlier awards have not been restated.
- IFRS 3 ('Business Combinations') has been applied prospectively to acquisitions after 1 January 2004. Earlier acquisitions have not been adjusted.

Further analysis of the effect of the transition to IFRS is provided in note 44.

2. Summary of significant accounting policies

The principal accounting policies adopted by the Group in the preparation of consolidated financial statements are set out below. These policies have been applied consistently to all periods presented unless stated otherwise.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiaries. A subsidiary is an entity over which the Group has the power to govern the financial and operating policies. The existence and nature of potential voting rights that are currently available to the Group are considered when determining whether the entity is a subsidiary. The results of subsidiaries acquired are consolidated from the date on which control passes to the Group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

Acquisitions are accounted for using the purchase method. The cost of an acquisition is measured as the fair value at the date of exchange of the consideration provided plus costs directly attributable to the acquisition. Identifiable assets and liabilities of the acquired business that meet the conditions for recognition under IFRS 3 ('Business Combinations') are recognised at their fair value at the date of acquisition. To the extent that the cost of an acquisition exceeds the fair value of net assets acquired the difference is recorded as goodwill. Where the fair value of the net assets acquired exceeds the cost of an acquisition the difference is recorded directly in the income statement.

Transactions between, and balances with, Group companies are eliminated together with unrealised gains on inter group transactions. Unrealised losses are eliminated to the extent that the asset transferred is not impaired. The accounting policies of acquired businesses are changed where necessary to be consistent with those of the Group.

Foreign currencies

Functional and presentational currency
The Group's consolidated financial statements are presented in pounds sterling, the functional currency of the Group, being the currency of the primary economic environment in which the Group operates.

Transactions and balances
Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement except where they relate to qualifying cash flow or investment hedges in which case the exchange differences are deferred in equity.

Foreign subsidiaries
The results of foreign subsidiaries are translated at the average rates of exchange for the year. Assets and liabilities of foreign subsidiaries are translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising from the translation of the results of foreign subsidiaries and their opening net assets are recognised as a separate component of equity. Exchange differences on borrowings and other currency instruments designated as a hedge of foreign subsidiaries are also taken to equity.

When a foreign subsidiary is sold the cumulative exchange differences relating to the retranslation of the net investment in that foreign subsidiary are recognised in the income statement as part of the gain or loss on disposal. This applies only to exchange differences recorded in equity after 1 January 2004. Exchange differences arising prior to 1 January 2004 remain in equity on disposal as permitted by IFRS 1('First-time Adoption of International Financial Reporting Standards').

Goodwill and fair value adjustments arising from the acquisition of a foreign subsidiary are treated as assets and liabilities of that subsidiary and are retranslated at the rates of exchange prevailing at the balance sheet date.

Revenue recognition

Revenue represents the fair value of the consideration received or receivable in respect of the sale of 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 significant risks and rewards of ownership have been transferred to the customer which occurs when the products are delivered to the customer or the services have been provided to the customer, title and risk of loss have been transferred and collection of related receivables is probable. An appropriate proportion of total long term contract value, based on the fair value of work performed, is included in revenue 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.

2. Summary of significant accounting policies continued

Segment reporting

A business segment is a group of businesses engaged in providing products and services that are subject to similar risks and returns and whose risks and returns differ from other business segments. A geographical segment is a group of businesses which operate in economic environments that are subject to similar risks and returns and whose risks and returns differ from other geographical segments.

Exceptional operating items

Exceptional operating items are transactions which by virtue of their incidence, size or a combination of both are disclosed separately in notes to the financial statements.

Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired business. Goodwill arising on acquisitions prior to 1 January 1998 was written off directly to equity on acquisition in accordance with the Group's prior UK GAAP accounting policy. Under the Group's new accounting policy such goodwill remains written off against equity. Goodwill arising on acquisitions after 1 January 1998 is recognised as an intangible asset. Under the Group's prior UK GAAP accounting policy goodwill recognised on the balance sheet was amortised over a maximum life of 20 years to the income statement. Under the Group's new accounting policy the Group ceased amortising goodwill with effect from 1 January 2004 but has not reversed prior year charges. Goodwill is tested annually for impairment. Goodwill is accordingly carried at cost less amortisation charged prior to 1 January 2004 less accumulated impairment losses. In the event that the business to which goodwill relates is disposed of, the attributable goodwill is included in the determination of the profit or loss on disposal.

Research and Development
Research expenditure is recognised as an expense in the income statement as incurred. Costs incurred on development projects that are undertaken where the related expenditure is separately identifiable, measurable and management are satisfied as to the ultimate technical and commercial viability of the project based on all relevant available information are recognised as an intangible asset. Capitalised development costs are amortised on a straight line basis over the periods expected to benefit, typically up to 10 years, commencing with the launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

Other intangible assets
a) Licences, trademarks, patents and software
Purchased licences, trademarks, patents, software licences and software programmes are included at cost and are amortised on a straight line basis over their estimated useful economic life.

b) Intangible assets acquired as part of a business combination
For acquisitions of businesses after 1 January 2004, the Group recognises separately from goodwill intangible assets provided they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. The intangible assets recognised are recorded at fair value. Where the intangible assets recognised have finite lives their fair value is amortised on a straight line basis over those lives. The nature of intangibles recognised and their estimated useful lives are as follows:

Customer relationships	Up to 25 years
Technology	Up to 25 years
Order backlogs	Over period of backlogs

Property, plant and equipment

Property, plant and equipment is recorded at cost less subsequent depreciation and impairment except for land which is recorded at cost less any impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset. The Group has taken advantage of the exemption under IFRS 1 ('First-time Adoption of International Financial Reporting Standards') not to restate property previously revalued under UK GAAP and to treat those earlier revaluations as deemed cost. Depreciation is calculated on a straight line basis 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

Investments available for sale

Investments available for sale are initially recorded at cost and are then remeasured at fair value at each balance sheet date. Unrealised gains and losses arising on remeasurement are recorded in equity. On disposal or impairment of the investments, cumulative gains and losses previously recognised in equity are transferred to the income statement.

Taxation

Income tax payable is based on the taxable profit for the year calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their corresponding book values as recorded in the Group's financial statements. Deferred tax is provided on unremitted earnings of foreign subsidiaries except where the Group can control the remittance and it is probable that the earnings will not be remitted in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Where deferred tax arises on the initial recognition of an asset or liability other than in a business combination and the recognition gives rise to no impact on taxable profit or loss then deferred tax is not provided. Deferred tax is calculated using tax rates that have been enacted or are substantially enacted at the balance sheet date.

Impairment of non current assets

Assets that have indefinite lives are tested for impairment annually. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent that the carrying value exceeds the recoverable amount an impairment loss is recorded for the difference as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value in use and its fair value less costs of disposal. For the purpose of impairment testing assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units or 'CGUs').

Inventories

Where a business is acquired, inventory of the acquired business is recorded at fair value in the Group's balance sheet. Finished goods are valued at selling prices less the costs of disposal and a reasonable profit allowance for the selling effort. Work in progress is valued at selling prices less the costs to complete, the costs of disposal and a reasonable profit allowance for the work still to be carried out.

2. Summary of significant accounting policies continued

All other inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and is determined using the first-in first-out (FIFO) method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

In all cases provision is made for obsolete, slow moving or defective items where appropriate and for unrealised profits on items of intra-group manufacture. Provision is made for the full amount of foreseeable losses on contracts.

Trade receivables

Trade receivables are stated initially at fair value then measured at amortised cost less provisions for impairment. Provisions for impairment are recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The impairment recorded is the difference between the carrying value of the receivables and the estimated future cash flows discounted where appropriate. Any impairment required is recorded in the income statement.

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 for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent that the carrying value exceeds the recoverable amount an impairment loss is recorded in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are disclosed as current liabilities except where the Group participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are accounted for as operating leases. Payments made under such leases are charged to the income statement on a straight line basis over the period of the lease.

Dividends

Interim dividends are recognised when they are paid. Final dividends are recognised when they are approved by the Shareholders.

Borrowings

Borrowings are initially recognised at fair value being proceeds received less directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost with any transaction costs amortised to the income statement over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Provisions

Provision is made for onerous property leases, environmental and litigation liabilities and for product warranty claims when the Group has a present obligation as a result of past events, it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted to present value where the impact is significant, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Pension scheme arrangements

A defined contribution scheme is a scheme in which the Group pays contributions into publicly or privately administered schemes on a voluntary, statutory or contractual basis. The Group has no further payment obligations once the contributions have been made. The amount charged to the income statement is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as receivables or payables in the balance sheet.

A defined benefit scheme is a scheme in which the amount of pension benefit that an employee will receive on retirement is defined and usually is dependent on a number of factors including length of service, age and compensation. For defined benefit scheme, pension costs and the costs of providing other post retirement benefits are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service costs are recognised immediately in the income statement unless the changes are dependent on the employees remaining in service for a particular period in which case the costs are recognised on a straight line basis over that period.

The retirement benefit obligations recognised on the balance sheet represents for each scheme the difference between the fair value of the scheme's assets and the present value of the scheme's defined benefit obligations measured at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and with terms to maturity comparable with the terms of the related defined benefit obligations.

Cumulative actuarial gains and losses are recognised in the period in which they arise in the statement of recognised income and expenditure.

Share-based compensation

The Group operates a number of equity settled and cash settled share-based compensation schemes. For each scheme the fair value of the services received from employees is recognised as an expense in the income statement over the period for which services are received (vesting period).

For equity settled share-based schemes the total amount recognised is based on the fair value of the equity instrument measured at the date the award is made. Assumptions are made as to the total number of equity instruments that will vest and these assumptions are reviewed at each balance sheet date. The impact of any revision to vesting estimates is recognised in the income statement over the vesting period. Proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium.

For cash settled share-based schemes the total amount recognised is based on the fair value of the liability incurred. The fair value of the liability is remeasured at each balance sheet date with changes in the fair value recognised in the income statement for the year.

2. Summary of significant accounting policies continued

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign currency transactional risk. Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date. To the extent that the maturity of the financial instrument is more than 12 months from the balance sheet date the fair value is reported as a non-current asset or liability. Derivative financial instruments with maturities of less than 12 months from the balance sheet are shown as current assets or liabilities.

The method by which any gain or loss arising from remeasurement is recognised depends on whether the instrument is designated as a hedging instrument and if so the nature of the item being hedged. The Group recognises an instrument as a hedging instrument by documenting at the inception of the instrument the relationship between the instrument and the hedged item and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges
Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recognised in the income statement together with changes in the fair value of the hedged item.

Cash flow hedges
Changes in the fair value of the effective portion of derivative financial instruments that are designated and qualify as cash flow hedges are initially recorded in equity. Changes in the fair value of the ineffective portion are recognised immediately in the income statement.

To the extent that changes in the fair value are recorded in equity they are recycled to the income statement in the periods in which the hedged item affects the income statement. However, when the transaction to which the hedge relates results in the recognition of a non monetary asset (e.g. inventory) or a liability then gains and losses previously recognised in equity are included in the initial measurement of the cost of the non monetary asset or liability.

If the forecast transaction to which the cash flow hedge relates is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement immediately. If the hedging instrument is sold, expires or no longer meets the criteria for hedge accounting the cumulative gains and losses previously recognised in equity are transferred to the income statement when the forecast transaction is recognised in the income statement.

Net investment hedge
Gains and losses on net investments of foreign subsidiaries are accounted for in a similar way to cash flow hedges. Gains and losses relating to the effective portion of any hedge are recognised in equity. Changes in the fair value of any ineffective portion are recognised in the income statement. Cumulative gains and losses previously recognised in equity are transferred to the income statement if the foreign subsidiary to which they relate is disposed of.

Derivatives that do not meet the criteria for hedge accounting
Where derivatives do not meet the criteria for hedge accounting changes in fair value are recognised immediately in the income statement. The Group utilises a number of foreign currency forward contracts to mitigate against currency fluctuations. The Group has determined that the additional costs of meeting the extensive documentation requirements for the Group's large number of foreign currency forward contracts is not merited. Accordingly gains and losses arising from measuring the contracts at fair value are recorded immediately in the income statement.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are deducted from the proceeds recorded in equity.

Treasury shares are shares in the Company that have been purchased by any company in the Group. The consideration paid for treasury shares including any incremental directly attributable costs is recorded as a deduction from shareholders equity. When such shares are sold any consideration received, net of any directly attributable costs, is recorded within shareholders equity.

3. Financial risk management

Financial risk factors

The Group's operations expose it to a number of financial risks including foreign currency risk, credit risk, interest rate risk and liquidity risk. These risks are managed by a centralised treasury department, according to Board approved objectives, policies and authorities. Regular reports monitor exposures and assist in managing the associated risks.

Foreign exchange risk
The Group operates internationally and is subject to foreign exchange risks on future commercial transactions and net investments in foreign subsidiaries. The principal exposures arise with respect to the US dollar against the Pound sterling.

To mitigate risks associated with future commercial transactions the Group policy is to hedge known, and certain forecast transaction exposures based on historical experience and projections. The Group hedges at least 70% of the next 12 months anticipated exposure and can hedge up to five years ahead. The Group uses borrowings denominated in the relevant currencies to hedge its investment in foreign subsidiaries.

Credit risk
The Group is not subject to significant concentration of credit risk with exposure spread across a large number of companies across the world. Policies are maintained to ensure the Group makes sales to customers with an appropriate credit history. Letters of credit or other appropriate instruments are put in place to reduce credit risk where considered necessary.

The Group is also subject to credit risk on the counterparties to its financial instruments which it controls through only dealing with highly rated counterparties and netting transactions on settlement wherever possible.

Interest rate risk
The Group has borrowings issued at both fixed and floating rates of interest. Borrowings issued at fixed rates expose the Group to fair value interest rate risk whereas floating rate borrowings expose the Group to cash flow interest rate risk. The Group's policy is to maintain at least 25% of its net debt at fixed rates.

The Group mitigates interest rate risks through swaps which have the economic effect of converting fixed rate borrowings into floating rate borrowings and floating rate borrowings into fixed rate borrowings.

Liquidity risk
Prudent liquidity risk management requires the Group to maintain sufficient cash and funding available through committed facilities.

4. Critical accounting estimates and judgements

In applying the Group's accounting policies set out in note 2 management is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and updated as necessary. The estimates and judgements that have the most significant effect on the amounts included in these consolidated financial statements are as follows:

Income taxes
In determining the Group provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made.

Pensions
The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligation recognised. Further details on these estimates are set out in note 34.

Goodwill
Each year the Group carries out impairment tests of its goodwill balances which requires estimates to be made of the value in use of its cash generating units (CGU's). These value in use calculations are dependent on estimates of the future cash flows and long term growth rates of the CGU's. Further details are provided in note 19.

Development costs and deferred costs
The Group capitalises development costs and deferred costs provided they meet certain criteria as set out in note 2. Costs are only capitalised where management are satisfied as to the ultimate commercial viability of the project based on available information.

Projects typically involve long term relationships on aircraft platforms and in assessing commercial viability estimates need to be made of future revenues which are dependent on a number of factors including the size, utilisation and life of the aircraft fleet to which the capitalised costs relate.

Environmental matters
The Group is exposed to a number of environmental claims relating to businesses sold by Whittaker prior to its acquisition by the Group in 1999. Advice is received by the Group from its environmental consultants and legal advisers to assist in the determination of the timing and an estimate of the costs that the Group may incur in respect of such claims and an appropriate provision is made. To the extent that these estimates change as more information becomes available adjustments are made to the carrying value of the provision.

The Group has extensive insurance arrangements in place to mitigate the impact of historical environmental events on the Group.

Contingent liabilities
The Group is subject to legal proceedings and other claims arising in the ordinary course of business. The Group is required to assess the likelihood of any adverse judgements or outcomes, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is based on a careful analysis of each individual issue with the assistance of outside legal counsel. However, actual claims incurred could differ from the original estimates.

Fair value of intangible assets acquired in a business combination
On the acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognised). The fair values of these intangible assets are dependent on estimates of attributable future revenues, margins and cash flows.

5. Revenue

An analysis of the Group's revenue is as follows:

	2005 £'000	2004 £'000
Sale of goods	**578,291**	447,143
Contract accounting revenue	**29,973**	23,707
Revenue from services	**8,053**	5,723
Total	**616,317**	476,573

6. Segmental analysis

Primary reporting format – business segments

The Group's primary segments are its business segments.

Year ended 31 December 2005

	Aerospace £'000	Defence £'000	Electronics £'000	Total £'000
Revenue	**458,615**	**85,977**	**71,725**	**616,317**
Underlying operating profit (see note 10)	107,224	14,681	8,694	130,599
Exceptional operating costs (see note 11)	(6,995)	–	–	(6,995)
Amortisation of intangibles acquired in business combinations	(10,053)	(250)	(580)	(10,883)
Revaluations of inventory acquired in business combinations	–	(58)	(168)	(226)
Financial instruments	(9,193)	20	(881)	(10,054)
Operating profit	**80,983**	**14,393**	**7,065**	**102,441**
Net finance costs				(14,314)
Profit before tax				**88,127**
Tax				(21,892)
Profit for the year				**66,235**
Depreciation (see note 22)	12,314	948	2,222	**15,484**
Amortisation (see notes 20 and 21)	12,586	91	686	**13,363**
Capital expenditure (see notes 20, 21 and 22)	22,990	1,694	3,527	**28,211**

Capital expenditure excludes additions arising from the acquisition of businesses. These are shown separately in note 43.

As at 31 December 2005

	Segment assets £'000	Segment liabilities £'000
Aerospace	1,092,866	223,854
Defence	67,904	19,781
Electronics	47,404	15,924
Unallocated	358	4,945
Total	**1,208,532**	**264,504**

Segment assets and liabilities exclude net debt, taxation, retirement benefit obligations, interest rate derivatives and investments available for sale.

Year ended 31 December 2004

	Aerospace £'000	Defence £'000	Electronics £'000	Total £'000
Revenue	336,860	68,949	70,764	476,573
Underlying operating profit (see note 10)	78,385	12,288	11,021	101,694
Exceptional operating costs (see note 11)	(4,206)	–	(3,673)	(7,879)
Amortisation of intangibles acquired in business combinations	(3,272)	–	–	(3,272)
Revaluations of inventory acquired in business combinations	(8,492)	–	–	(8,492)
Financial instruments	–	–	–	–
Operating profit	62,415	12,288	7,348	82,051
Net finance costs				(11,395)
Profit before tax				70,656
Tax				(18,116)
Profit for the year				52,540
Depreciation (see note 22)	10,168	941	2,050	13,159
Amortisation (see notes 20 and 21)	4,571	18	179	4,768
Capital expenditure (see notes 20, 21 and 22)	15,171	988	3,119	19,278

Capital expenditure excludes additions arising from the acquisition of businesses. These are shown separately in note 43.

6. Segmental analysis continued

As at 31 December 2004

	Segment assets £'000	Segment liabilities £'000
Aerospace	1,008,144	163,668
Defence	54,639	13,092
Electronics	44,311	19,051
Unallocated	1,635	7,831
	1,108,729	203,642

Segment assets and liabilities exclude net debt, taxation, retirement benefit obligations, interest rate derivatives and investments available for sale.

Secondary reporting format – geographical segments

The Group's secondary segments are its geographical segments.

	2005 £'000	2004 £'000
Revenue		
UK	**105,571**	75,417
Rest of Europe	**130,951**	100,293
North America	**317,138**	253,525
Rest of World	**62,657**	47,338
	616,317	476,573

Revenues are based on the location of the customer.

	2005 £'000	2004 £'000
Total assets		
UK	**670,731**	668,224
Rest of Europe	**69,712**	61,634
North America	**464,031**	375,094
Rest of World	**3,700**	2,142
	1,208,174	1,107,094
Unallocated assets	**358**	1,635
	1,208,532	1,108,729

Total assets are based on the location of the assets. Total assets excludes cash, taxation, interest rate derivatives and investments available for sale.

	2005 £'000	2004 £'000
Capital expenditure		
UK	**10,402**	8,839
Rest of Europe	**4,904**	2,883
North America	**12,354**	6,749
Rest of World	**551**	807
	28,211	19,278

Capital expenditure is based on the location of the assets.

7. Expenses by nature

	2005 £'000	2004 £'000
Distribution costs	**45,126**	34,838
Research and development:		
Expenditure	**22,742**	22,640
Amortisation of development costs (see note 20)	**1,045**	1,054
Exceptional operating costs (see note 11)	**6,995**	7,879
Revaluations of inventory acquired in business combinations (see note 10)	**226**	8,492
Financial instruments (see note 10)	**10,054**	–
Depreciation and amortisation (see notes 21 & 22)	**27,802**	16,873
Staff costs (see note 9)	**220,301**	171,387
Changes in inventories of finished goods and work in progress	**(15,477)**	(24,233)
Raw materials and consumables used	**156,571**	123,697
Operating lease rentals – land and buildings	**8,348**	6,076
Operating lease rentals – plant, equipment and vehicles	**551**	348
Other administration costs	**30,926**	26,676
	515,210	395,727
Other operating income	**(1,334)**	(1,205)
Total	**513,876**	394,522
Analysed in the income statement:		
Cost of sales	**338,136**	269,288
Net operating costs	**175,740**	125,234
Total	**513,876**	394,522

8. Auditors remuneration

		2005 £'000	2004 £'000
Payable to PricewaterhouseCoopers LLP and network firms:			
Audit Services	: statutory audit	**1,055**	562
	: other audit related reporting: overseas	**85**	69
Other services	: other	**144**	38
Total		**1,284**	669

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 £25,000 (2004: £24,000).

In addition to the amounts disclosed above, fees paid to PricewaterhouseCoopers LLP of £Nil (2004: £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 of 2004 prior to their acquisition by Meggitt. Therefore total audit fees payable to PricewaterhouseCoopers LLP in respect of the audit for the 2004 year were £668,000.

9. Staff costs

	2005 £'000	2004 £'000
Employee costs during the year including executive directors:		
Wages and salaries	**176,756**	140,648
Social security costs	**25,451**	19,430
Pension costs – defined contribution schemes (see note 34)	**7,078**	5,323
Pension costs – defined benefit schemes (see note 34)	**8,715**	4,835
Share-based payment	**2,301**	1,151
Total	**220,301**	171,387
Average monthly number of persons employed including executive directors:		
Production	**4,632**	3,577
Selling and distribution	**515**	389
Administration	**535**	458
Total	**5,682**	4,424

Details of directors' remuneration can be found in the Remuneration Report on page 36.

10. Reconciliations between profit and underlying profit

The Group has historically reported additional profit measures where it was felt that these gave a better view of the underlying trading performance. Under IFRS the Group continues to report these additional measures, now called underlying operating profit, underlying profit before tax and underlying profit for the year and the derivation of these measures is shown below:

	Notes	2005 £'000	2004 £'000
Operating profit		**102,441**	82,051
Exceptional operating costs (see note 11)		**6,995**	7,879
Amortisation of intangibles acquired in business combinations	a	**10,883**	3,272
Revaluations of inventory acquired in business combinations	b	**226**	8,492
Financial instruments	c	**10,054**	–
Adjustments to operating profit		**28,158**	19,643
Underlying operating profit		**130,599**	101,694
Profit before taxation		**88,127**	70,656
Adjustments to operating profit per above		**28,158**	19,643
Underlying profit before taxation		**116,285**	90,299
Profit for the year		**66,235**	52,540
Adjustments to operating profit per above		**28,158**	19,643
Tax effect of adjustments to operating profit		**(8,342)**	(6,265)
Underlying profit for the year		**86,051**	65,918

a The Group excludes from its underlying profit figures the amortisation of intangibles acquired in business combinations.

	2005 £'000	2004 £'000
Amortisation of other intangible assets (see note 21)	**12,318**	3,714
Less amortisation of purchased intangible assets (see note 21)	**(1,435)**	(442)
Amortisation of intangibles acquired in business combinations	**10,883**	3,272

b. IFRS 3 requires finished goods acquired through a business combination to be valued at selling prices less costs of disposal and a reasonable profit allowance for the selling effort. Work in progress (WIP) acquired in a business combination is valued at selling prices less costs to complete, costs of disposal and a reasonable profit allowance for the work not yet completed. The fair value of inventory acquired is thus generally higher than that built post completion which includes no profit element. This increase arising from the revaluation of acquired inventory is charged to the income statement as the inventory is consumed and is excluded from the Group's underlying profit figures.

c. Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures it has decided that the costs of meeting the extensive documentation required to be able to apply hedge accounting under IAS 39 ("Financial Instruments: Recognition and Measurement") are not merited. The Group's underlying profit figures exclude amounts which would not have been recorded if hedge accounting had been applied. As IAS 39 was adopted with effect from 1 January 2005 there are no comparative figures.

	2005 £'000	2004 £'000
Movement in the fair value of foreign currency forward contracts:		
Fair value at 31 December 2005	**(5,569)**	–
Less initial fair value recognised on 1 January 2005	**(5,556)**	–
	(11,125)	–
Impact of retranslating:		
Net foreign currency assets and liabilities at spot rate	**1,071**	–
Financial instruments	**(10,054)**	–

11. Exceptional operating costs

The exceptional charge in 2005 of £6,995,000 includes £1,995,000 for the completion of the consolidation of Meggitt's polymers business into Dunlop Aerospace's facilities in the Midlands and £5,000,000 arising from the requirement to move the Avica facility in Hemel Hempstead following the explosion at the Buncefield Fuel Distribution Depot.

The exceptional charge in 2004 of £7,879,000 includes £4,206,000 in respect of the consolidation of Meggitt's polymers business referred to above and £3,673,000 in respect of the closure of the Group's manufacturing facilities in the US Virgin Islands and the relocation of production to a new facility in China.

Cash expended in the year on these items amounted to £5,533,000 (2004: £3,088,000) of which £4,507,000 (2004: £489,000) related to the consolidation of the Meggitt's polymers business and £1,026,000 (2004: £2,599,000) in respect of the closure of the US Virgin Islands facility and relocation to China.

The tax credit in respect of the exceptional operating costs was £2,098,000 (2004: £1,737,000).

12. Finance income

	2005 £'000	2004 £'000
Interest on bank deposits	**451**	673
Other receivables – discount unwinding	**2,316**	–
Other income	**980**	421
	3,747	1,094
Unwinding of interest on retirement benefit liabilities	**(20,283)**	–
Expected return on retirement benefit assets	**21,410**	–
Retirement benefit obligations * (see note 34)	**1,127**	–
Finance income	**4,874**	1,094

* In 2004 the accounting for retirement benefit obligations resulted in a net finance cost which is shown in note 13.

13. Finance costs

	2005 £'000	2004 £'000
Bank borrowings	**7,747**	3,945
Senior Notes	**7,404**	7,356
Other interest	**304**	210
Provisions – discount unwinding (see note 32)	**3,470**	530
Interest rate swaps – fair value hedges	**263**	–
	19,188	12,041
Unwinding of interest on retirement benefit liabilities	**–**	17,242
Expected return on retirement benefit assets	**–**	(16,794)
Retirement benefit obligations * (see note 34)	**–**	448
Finance costs	**19,188**	12,489

*In 2005 the accounting for retirement benefit obligations resulted in a net finance income which is shown in note 12.

14. Tax

	2005 £'000	2004 £'000
Current tax – current year	**25,056**	19,429
Current tax – adjustment in respect of prior years	**(5,232)**	(2,086)
Deferred tax – current year	**3,092**	174
Deferred tax – adjustment in respect of prior years	**(1,024)**	599
Taxation	**21,892**	18,116

Reconciliation of the total tax charge

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

	2005 £'000	2004 £'000
Profit on ordinary activities before taxation at weighted average standard tax rate of 36.1% (2004: 35.6%)	**31,801**	25,154
Effects of:		
Permanent differences	**348**	176
Temporary differences	**(1,735)**	(2,397)
Tax credits and incentives	**(2,032)**	(2,536)
Prior year credit	**(6,490)**	(2,281)
Total taxation	**21,892**	18,116

The prior year credit mainly relates to the release of provisions for tax exposures. These are no longer required as tax authorities have closed enquiries into a number of prior year tax returns.

Tax (credit)/charge on items charged direct to equity

	2005 £'000	2004 £'000
Current tax on exchange movements	**(951)**	–
Deferred tax on actuarial gains and losses	**(7,958)**	2,714
Deferred tax on share based payment	**1,707**	(302)
Deferred tax arising on adoption of IAS 32 and IAS 39 on 1 January 2005	**1,666**	–
Total taxation recorded in equity	**(5,536)**	2,412

15. Profit of parent company

The consolidated profit attributable to the shareholders of Meggitt PLC includes a profit, after dividends received of £70,384,000 (2004 £52,604,000 as restated) 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.

16. Earnings per ordinary share

Earnings per ordinary share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of shares in issue during the year. The weighted average number of shares excludes shares bought by the Group and held as treasury shares. The calculation of diluted earnings per share adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group this means assuming all share options in issue are exercised.

	2005 £'000	2005 Number ('000)	2005 Pence	2004 £'000	2004 Number ('000)	2004 Pence
Profit attributable to equity shareholders	**66,235**	**430,794**	**15.4**	52,540	379,011	13.9
Treasury shares (see note 38)	**–**	**(20)**	**–**	–	(39)	–
Basic EPS	**66,235**	**430,774**	**15.4**	52,540	378,972	13.9
Effect of dilutive potential ordinary shares - Options	**–**	**2,644**	**(0.1)**	–	1,803	(0.1)
Diluted EPS	**66,235**	**433,418**	**15.3**	52,540	380,775	13.8

Underlying earnings per share is based on underlying profit (see note 10) and is calculated below:

	2005 Pence	2004 Pence
Basic EPS	**15.4**	13.9
Add back effects of:		
Exceptional operating costs	**1.1**	1.3
Amortisation of intangibles acquired in business combinations	**1.8**	0.6
Revaluations of inventory acquired in business combinations	**–**	1.6
Financial instruments	**1.7**	–
Underlying EPS	**20.0**	17.4

17. Dividends

	2005 £'000	2004 £'000
In respect of earlier years	**–**	15,077
In respect of 2004:		
Interim of 2.20p per share	**–**	9,416
Final of 4.80p per share	**20,633**	–
In respect of 2005:		
Interim of 2.40p per share	**10,361**	–
Dividends paid	**30,994**	24,493
Less paid as scrip dividend (see note 42)	**(4,979)**	(10,964)
Dividends paid in cash	**26,015**	13,529

A final dividend in respect of 2005 of 5.30p per share (2004: 4.80p), amounting to a total final dividend of £22,961,000 (2004: £20,633,000) is to be proposed at the Annual General Meeting in May 2006. This dividend is not reflected in these financial statements as it is not approved at the balance sheet date.

18. Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of the key management personnel of the Group including executive directors is set out below.

	2005 £'000	2004 £'000
Wages and salaries	**4,008**	3,473
Social security costs	**691**	475
Pension costs – defined contribution schemes	**347**	461
Pension costs – defined benefit schemes	**263**	204
Share based payment	**867**	477
	6,176	5,090

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 36 which constitutes part of these financial statements.

19. Goodwill

	Total £'000
At 1 January 2004	
Cost	318,877
Year ended 31 December 2004	
Opening cost	318,877
Exchange rate adjustments	(18,817)
Businesses acquired	215,707
Closing cost	515,767
Year ended 31 December 2005	
Opening cost	515,767
Exchange rate adjustments	25,957
Businesses acquired (see note 43)	9,637
Closing cost	**551,361**

Goodwill is allocated to the Group's cash generating units (CGUs) which principally comprise its individual business operations. For each CGU the Group has determined its recoverable amount. The recoverable amount is determined based on value in use calculations. No impairment charge was required in the year (2004: £Nil) and the cumulative impairment charge recognised to date was £Nil (2004: £Nil). The key assumptions used in the calculations were:

- The forecast operating cash flows for the next three years based on approved budgets and plans. These budgets and plans are based on past performance and expectations for the market development of the CGU.
- An estimate of the long-term effective tax rate for the CGU.
- An estimate of the long-term growth rate for the CGU. The growth rate does not exceed the long-term estimate for the business in which the CGU operates.
- An estimate of the terminal value of the business using the Gordon Growth model.

The resulting cash flows were discounted using a post tax discount rate of 8%.

19. Goodwill continued

A segment level summary of goodwill is shown below:

	2005 £'000	2004 £'000
Aerospace	**516,928**	485,019
Defence	**29,125**	26,001
Electronics	**5,308**	4,747
	551,361	515,767

20. Development costs

	Total £'000
At 1 January 2004	
Cost	6,854
Accumulated amortisation	(1,592)
Net book amount	5,262
Year ended 31 December 2004	
Opening net book amount	5,262
Exchange rate adjustments	(102)
Businesses acquired	5,313
Capitalisation of internal development costs	5,010
Amortisation charge	(1,054)
Closing net book amount	14,429
At 31 December 2004	
Cost	23,863
Accumulated amortisation	(9,434)
Net book amount	14,429
Year ended 31 December 2005	
Opening net book amount	14,429
Exchange rate adjustments	284
Capitalisation of internal development costs	8,024
Amortisation charge	(1,045)
Closing net book amount	**21,692**
At 31 December 2005	
Cost	31,335
Accumulated amortisation	(9,643)
Net book amount	**21,692**

21. Other intangible assets

	Customer relationships (*) £'000	Technology (*) £'000	Order backlogs (*) £'000	Other (*) £'000	Other purchased £'000	Total £'000
At 1 January 2004						
Cost	–	–	–	–	5,273	5,273
Accumulated amortisation	–	–	–	–	(2,450)	(2,450)
Net book amount	–	–	–	–	2,823	2,823
Year ended 31 December 2004						
Opening net book amount	–	–	–	–	2,823	2,823
Exchange rate adjustments	14	14	1	10	(8)	31
Businesses acquired	136,006	35,748	6,063	7,125	981	185,923
Additions	–	–	–	–	22	22
Amortisation charge	(1,918)	(499)	(855)	–	(442)	(3,714)
Closing net book amount	134,102	35,263	5,209	7,135	3,376	185,085
At 31 December 2004						
Cost	136,020	35,762	6,064	7,135	6,291	191,272
Accumulated amortisation	(1,918)	(499)	(855)	–	(2,915)	(6,187)
Net book amount	134,102	35,263	5,209	7,135	3,376	185,085
Year ended 31 December 2005						
Opening net book amount	134,102	35,263	5,209	7,135	3,376	185,085
Exchange rate adjustments	597	201	19	95	113	1,025
Businesses acquired (see note 43)	–	–	–	–	214	214
Disposals	–	–	–	–	(20)	(20)
Additions	–	–	–	–	3,505	3,505
Amortisation charge	(6,574)	(1,638)	(2,508)	(163)	(1,435)	(12,318)
Closing net book amount	**128,125**	**33,826**	**2,720**	**7,067**	**5,753**	**177,491**
At 31 December 2005						
Cost	136,661	35,970	6,098	7,239	11,293	197,261
Accumulated amortisation	(8,536)	(2,144)	(3,378)	(172)	(5,540)	(19,770)
Net book amount	**128,125**	**33,826**	**2,720**	**7,067**	**5,753**	**177,491**

*Acquired in a business combination

22. Property, plant and equipment

	Land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
At 1 January 2004			
Cost	40,027	108,698	148,725
Accumulated depreciation	(17,805)	(79,794)	(97,599)
Net book amount	22,222	28,904	51,126
Year ended 31 December 2004			
Opening net book amount	22,222	28,904	51,126
Exchange rate adjustments	(441)	(901)	(1,342)
Businesses acquired	34,351	26,575	60,926
Additions	1,834	12,412	14,246
Disposals	(18)	(229)	(247)
Depreciation charge	(1,233)	(11,926)	(13,159)
Closing net book amount	56,715	54,835	111,550
At 31 December 2004			
Cost	77,527	228,052	305,579
Accumulated depreciation	(20,812)	(173,217)	(194,029)
Net book amount	56,715	54,835	111,550
Year ended 31 December 2005			
Opening net book amount	56,715	54,835	111,550
Exchange rate adjustments	519	1,605	2,124
Businesses acquired (see note 43)	931	1,448	2,379
Additions	2,697	13,985	16,682
Disposals	(73)	(237)	(310)
Depreciation charge	(1,770)	(13,714)	(15,484)
Closing net book amount	**59,019**	**57,922**	**116,941**
At 31 December 2005			
Cost	82,005	245,505	327,510
Accumulated depreciation	(22,986)	(187,583)	(210,569)
Net book amount	**59,019**	**57,922**	**116,941**

23. Investments available for sale

	2005 £'000	2004 £'000
Other investments	**1,057**	1,075

At 31 December 2005 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. As this is an unquoted investment the fair value cannot be measured reliably and is therefore measured at cost. No provision for impairment is deemed to be required.

24. Inventories

	2005 £'000	2004 £'000
Contract costs incurred	**10,234**	5,794
Less progress billings	**(3,860)**	(3,544)
	6,374	2,250
Raw materials and bought-in components	**56,501**	42,979
Manufacturing work in progress	**43,668**	34,787
Finished goods and goods for resale	**27,798**	25,326
	134,341	105,342

The cost of inventories recognised as an expense and included in cost of sales amounted to £332,323,000 (2004: £256,796,000).

25. Trade and other receivables

	2005 £'000	2004 £'000
Trade receivables	**112,107**	92,936
Amounts recoverable on contracts	**3,707**	2,726
Prepayments and accrued income	**3,390**	3,294
Deferred costs	**28,883**	28,192
Other receivables	**58,624**	49,505
Total	**206,711**	176,653
Less non-current portion:		
Deferred costs	**26,015**	25,696
Other receivables	**42,003**	20,956
Non-current portion	**68,018**	46,652
Current portion	**138,693**	130,001

The Group's trade receivables are stated after a provision for impairment of £3,797,000 (2004: £3,318,000).

Other receivables in total includes £44,383,000 (2004: £22,989,000) 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 32) of which £4,602,000 (2004: £4,115,000) is shown as current.

Other receivables in total also includes £694,000 (2004: £300,000) 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 38). 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	14.04.03	£916,320	507,970
	09.03.05	£1,011,345	365,426

The shares may be transferred to the participating employees after three years. These amounts are being amortised to the income statement over the relevant periods.

26. Cash and cash equivalents

	2005 £'000	2004 £'000
Cash at bank and in hand	**45,490**	42,732
Cash and cash equivalents	**45,490**	42,732

Cash and bank overdrafts as shown in the consolidated cash flow statement comprise:

	2005 £'000	2004 £'000
Cash and cash equivalents	**45,490**	42,732
Bank overdrafts (included within current liabilities)	**–**	(389)
Cash and bank overdrafts	**45,490**	42,343

27. Trade and other payables – current

	2005 £'000	2004 £'000
Payments received on account	**20,624**	6,209
Trade payables	**61,336**	52,305
Social security and other taxes	**3,423**	3,473
Accrued expenses	**9,399**	10,206
Other payables	**73,447**	68,645
	168,229	140,838

28. Trade and other payables – non-current

	2005 £'000	2004 £'000
Other payables	**4,623**	1,975

29. Bank and other borrowings

	2005 £'000	2004 £'000
Current		
Bank overdrafts	–	389
Bank loans	**11,492**	4,683
Other loans	**1,465**	842
	12,957	5,914
Non-current		
Bank loans	**196,724**	231,037
Other loans	**150,094**	135,205
	346,818	366,242
Total borrowings	**359,775**	372,156
Analysis of borrowings repayable:		
in one year or less	**12,957**	5,914
in more than one year but not more than two years	**1,211**	613
in more than two years but not more than five years	**198,849**	233,779
in more than five years	**146,758**	131,850
	359,775	372,156

Borrowings are stated after deduction of unamortised debt issue costs. Secured borrowings amounted to £800,000 at the year end. The Group had the following committed facilities:

	2005			2004		
	Drawn £'000	Undrawn £'000	Total £'000	Drawn £'000	Undrawn £'000	Total £'000
Senior notes (US dollars 250 million)	**145,620**	**–**	**145,620**	130,215	–	130,215
Syndicated credit facility (US dollars 680 million)	**175,739**	**220,346**	**396,085**	219,140	135,045	354,185
	321,359	**220,346**	**541,705**	349,355	135,045	484,400

The Group issued US dollars 250,000,000 of senior notes to private investors in 2003. These were all drawn at 31 December 2005 and the sterling equivalent was £145,620,000. Of these, US dollars 180,000,000 carry an interest rate of 5.36% and are due for repayment in 2013, and the balance of US dollars 70,000,000 carry an interest rate of 5.46% and are due for repayment in 2015.

The Company renegotiated its USD 680,000,000, five year, unsecured multi-currency revolving syndicated credit facility during the year. At 31 December 2005 the amounts drawn under this facility were £175,739,000 represented by borrowings denominated in US dollars of £142,823,000 (US dollars: $245,200,000), in Euros of £8,726,000 (Euros: €12,700,000) and in Swiss francs of £24,190,000 (Swiss francs: CHF54,700,000). Borrowings under the facility are subject to interest at floating rates.

The committed facilities outstanding at 31 December 2005 and 2004 all expire more than two years from the balance sheet date. The Group also has various uncommitted facilities with its relationship banks.

The fair value of the Group borrowings is as follows:

	2005		2004	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Current	**12,957**	**12,957**	5,914	5,914
Non-current	**346,818**	**346,505**	366,242	367,137
	359,775	**359,462**	372,156	373,051

29. Bank and other borrowings continued

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:

As at 31 December 2005:

					Fixed rate borrowings	
	Floating £'000	Fixed £'000	Non interest bearing £'000	Total £'000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	**–**	**927**	**–**	**927**	**3.0**	**8.7**
US dollars	**186,261**	**114,140**	**–**	**300,401**	**5.4**	**8.2**
Swiss francs	**35,459**	**–**	**–**	**35,459**		
Euro	**14,351**	**1,116**	**4,854**	**20,321**	**5.3**	**3.4**
Other	**4,286**	**–**	**–**	**4,286**		
Gross borrowings	**240,357**	**116,183**	**4,854**	**361,394**		
Less unamortised debt issue costs	**(1,062)**	**(557)**	**–**	**(1,619)**		
Book value of borrowings	**239,295**	**115,626**	**4,854**	**359,775**		

As at 31 December 2004:

					Fixed rate borrowings	
	Floating £'000	Fixed £'000	Non interest bearing £'000	Total £'000	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		
Gross borrowings	267,539	101,625	4,629	373,793		
Less unamortised debt issue costs	(1,011)	(626)	–	(1,637)		
Book value of borrowings	266,528	100,999	4,629	372,156		

The weighted average period to maturity for non interest bearing borrowings is 2.9 years (2004: 3.3 years).

30. Financial instruments

For cash, investments available for sale, receivables and short term borrowings the fair value of the financial instruments approximates to their book value due to the short maturity periods of these financial instruments. On receivables allowances are made within the book value for credit risk. 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.

31. Derivative financial instruments

	2005 Assets £'000	2005 Liabilities £'000	2004 Assets £'000	2004 Liabilities £'000
Interest rate swaps – fair value hedges	**–**	**(400)**	–	–
Foreign exchange forward contracts	**51**	**(5,620)**	–	–
Total	**51**	**(6,020)**	–	–
Less non-current portion:				
Foreign exchange forward contracts	**–**	**(1,555)**	–	–
Non-current portion	**–**	**(1,555)**	–	–
Current portion	**51**	**(4,465)**	–	–

Interest rate swaps

The notional principal amount of the outstanding interest rate swap contract at 31 December 2005 was £32,036,000 (US dollars: $55,000,000). The swap has the economic effect of converting fixed rate dollar borrowings at 5.36 % to floating rate dollar borrowings at LIBOR plus a margin. The notional principal amount of the outstanding interest rate swap contracts at 31 December 2004 were £100,108,100 of which £35,000,000 was denominated in Pounds sterling and £65,108,100 was denominated in US dollars (US dollars: $125,000,000).

Forward foreign currency contracts

	2005 £'000	2004 £'000
Fair value:		
US dollar forward sales (USD/£)	**(3,543)**	–
Forward sales denominated in other currencies	**(2,026)**	–
	(5,569)	–

32. Provisions

	Environmental & litigation (a) £'000	Onerous lease costs (b) £'000	Warranty costs (c) £'000	Group total £'000
Balance at 1 January 2005	51,201	2,077	8,708	61,986
Exchange rate adjustments	6,829	70	280	7,179
Businesses acquired (see note 43)	–	–	173	173
Charge/(credit) to income statement – net operating costs	26,868	(115)	2,173	28,926
Charge to income statement – net finance costs (see note 13)	3,385	85	–	3,470
Utilised	(12,261)	(418)	(2,966)	(15,645)
Balance at 31 December 2005	**76,022**	**1,699**	**8,368**	**86,089**

	2005 £'000	2004 £'000
Current	**18,447**	21,604
Non-current	**67,642**	40,382
Balance at 31 December 2005	**86,089**	61,986

a) Provision has been made for the probable exposures arising from environmental matters, legal proceedings and contractual disputes 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 £44,383,000 (2004: £22,989,000) has been recognised as a receivable for the amounts recoverable from the insurers (see note 25). 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 ten 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.

33. Deferred Tax

Movement on net deferred tax balances:

	Total £'000
Net balance at 1 January 2004	26,555
Exchange rate adjustments	(329)
Businesses acquired	(44,676)
Charged to income statement (see note 14)	(773)
Reclassifications	(651)
Charged to equity (see note 14)	(2,412)
Net balance at 31 December 2004	(22,286)
Exchange rate adjustments	(411)
Reclassifications	(254)
Charged to income statement (see note 14)	(2,068)
Charged to equity (see note 14)	4,585
Net balance at 31 December 2005	**(20,434)**
Disclosed as:	
Deferred tax asset	**32,034**
Deferred tax liability	**(52,468)**
Net balance at 31 December 2005	**(20,434)**

The net deferred tax balance is analysed as follows:

	2005 £'000	2004 £'000
Accelerated tax depreciation	**(9,006)**	(10,026)
Tax losses	**5,839**	–
Retirement benefit obligations	**31,371**	23,637
Intangible assets acquired in business combinations	**(53,003)**	(42,893)
Other	**4,365**	6,996
Net balance	**(20,434)**	(22,286)

Deferred tax assets are analysed as follows:

	2005 £'000	2004 £'000
To be recovered within 12 months	**6,436**	2,354
To be recovered after more than 12 months	**25,598**	26,496
	32,034	28,850

Deferred tax liabilities are analysed as follows:

	2005 £'000	2004 £'000
To be recovered within 12 months	**(3,265)**	(3,265)
To be recovered after more than 12 months	**(49,203)**	(47,871)
	(52,468)	(51,136)

The Group has unrecognised deferred tax assets of £32 million (2004: £19 million). The majority 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. No provision has been made for taxation that would arise in the event of foreign 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.

34. Retirement benefit obligations

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

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.

In other overseas countries the Group provides pensions in accordance with statutory requirements and local customs and practice. Such schemes are typically of a defined contribution nature.

The amounts recognised in the income statement in respect of pensions are as follows:

	2005 £'000	2004 £'000
In respect of:		
Defined contribution schemes	**7,078**	5,323
Defined benefit schemes:		
Service cost	**8,715**	4,835
Interest cost	**20,283**	17,242
Expected return on scheme assets	**(21,410)**	(16,794)
	7,588	5,283
Total charge	**14,666**	10,606

Of the total charge £6,695,000 (2004: £4,205,000) has been included in cost of sales, £9,098,000 (2004: £5,953,000) in net operating expenses, £Nil (2004: £448,000) in finance costs and a credit of £1,127,000 (2004: £Nil) included in finance income.

The amounts recognised in the balance sheet are as follows:

	2005					
	Dunlop £'000	**MEPP £'000**	**1990 Plan £'000**	**Whittaker Frozen Plan £'000**	**Whittaker unfunded plans £'000**	**Group Total £'000**
Fair value of scheme assets	**95,638**	**39,413**	**151,475**	**62,563**	**–**	**349,089**
Present value of scheme liabilities	**(114,595)**	**(43,293)**	**(206,896)**	**(79,797)**	**(2,725)**	**(447,306)**
Retirement benefit obligations	**(18,957)**	**(3,880)**	**(55,421)**	**(17,234)**	**(2,725)**	**(98,217)**

	2004					
	Dunlop £'000	MEPP £'000	1990 Plan £'000	Whittaker Frozen Plan £'000	Whittaker unfunded plans £'000	Group Total £'000
Fair value of scheme assets	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)
Retirement benefit obligations	(15,981)	(6,137)	(40,781)	(9,660)	(2,395)	(74,954)

The expected return on scheme assets is based on market expectation at the beginning of the period of asset returns over the life of the benefit obligation. The expected return on scheme assets and the major categories of scheme assets as a percentage of total scheme assets are as follows:

	2005							
	Long-term rate of return		**% of total assets**					
	UK	**US**	**Dunlop %**	**MEPP %**	**1990 Plan %**	**Whittaker Frozen Plan %**	**Whittaker unfunded plans %**	**Group Total %**
Equities	**7.50%**	**9.50%**	**64.9**	**60.2**	**46.9**	**37.9**	**–**	**51.7**
Bonds	**4.85%**	**5.75%**	**35.0**	**39.4**	**40.8**	**59.2**	**–**	**42.4**
Property	**7.50%**	**–**	**–**	**–**	**11.9**	**–**	**–**	**5.2**
Other Assets	**4.75%**	**1.00%**	**0.1**	**0.4**	**0.4**	**2.9**	**–**	**0.7**
Retirement benefit obligations			**100.0**	**100.0**	**100.0**	**100.0**	**–**	**100.0**

34. Retirement benefit obligations continued

	2004							
	Long-term rate of return		% of total assets					
	UK	US	Dunlop %	MEPP %	1990 Plan %	Whittaker Frozen Plan %	Whittaker unfunded plans %	Group Total %
Equities	7.50%	10.00%	61.9	70.0	76.2	34.3	–	63.5
Bonds	5.25%	6.50%	38.0	30.0	11.6	61.8	–	30.4
Property	7.50%	–	–	–	12.2	–	–	5.3
Other Assets	4.75%	1.00%	0.1	–	–	3.9	–	0.8
Retirement benefit obligations			100.0	100.0	100.0	100.0	–	100.0

Changes in the fair value of scheme assets are as follows:

	2005 £'000	2004 £'000
Fair value of scheme's assets at 1 January	**298,152**	207,531
Exchange rate adjustments	**6,798**	(4,300)
Subsidiaries acquired	**–**	69,434
Expected return on scheme's assets	**21,410**	16,794
Contributions – Group	**10,097**	6,814
Contributions – Members	**2,901**	1,621
Benefits paid	**(15,987)**	(11,894)
Actuarial gains	**25,718**	12,152
Fair value of scheme's assets at 31 December	**349,089**	298,152

The financial assumptions used to calculate scheme liabilities are:

	2005			2004		
	Dunlop	**MEPP**	**1990 Plan**	Dunlop	MEPP	1990 Plan
Discount rate	**4.85%**	**4.85%**	**4.85%**	5.25%	5.25%	5.25%
Inflation rate	**2.60%**	**2.60%**	**2.60%**	2.75%	2.75%	2.75%
Increase to deferred benefits during deferment	**2.60%**	**2.60%**	**2.60%**	2.75%	2.75%	2.75%
Increases to pensions in payment	**2.60%**	**2.60%**	**2.60%**	2.75%	2.75%	2.75%
Salary increases	**3.60%**	**3.60%**	**3.60%**	3.75%	3.75%	3.75%

	2005		2004	
	Whittaker Frozen Plan	**Whittaker unfunded plans**	Whittaker Frozen Plan	Whittaker unfunded plans
Discount Rate	**5.50%**	**5.50%**	6.00%	6.00%

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

In determining pension liabilities the Group uses mortality assumptions which are based on published mortality tables adjusted to reflect the characteristics of the schemes populations. During the year the Group has reflected more up to date mortality assumptions in its determination of pension liabilities. In 2005 mortality assumptions were based on the PA92 medium cohort (Year of birth) mortality tables for the UK schemes (2004: PXA92c2020 for Dunlop and PMA92 for MEPP and 1990 Plan) and the RP-2000 tables for the US schemes (2004: GAM 83 RPA 94 version).

34. Retirement benefit obligations continued

Changes in the present value of scheme liabilities are as follows:

	2005 £'000	2004 £'000
Present value of scheme's liabilities at 1 January	**373,106**	278,188
Exchange rate adjustments	**8,555**	(5,158)
Subsidiaries acquired	**–**	86,152
Service cost	**8,715**	4,835
Interest cost – unwinding of discount on liabilities	**20,283**	17,242
Contributions – Members	**2,901**	1,621
Benefits paid	**(16,330)**	(12,255)
Actuarial losses	**50,076**	2,481
Present value of scheme's liabilities at 31 December	**447,306**	373,106

Cumulative gains and losses recognised in equity are as follows:

	2005 £'000	2004 £'000
As at 1 January	**6,957**	–
Actuarial (losses)/gains	**(24,358)**	9,671
Deferred tax credit/(charge)	**7,958**	(2,714)
Net actuarial (losses)/gains	**(16,400)**	6,957
As at 31 December	**(9,443)**	6,957

The actual return on plan assets was £47,128,000 (2004: £28,946,000).

A history of experience gains and losses benefit obligation during the year is as follows:

	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Experience adjustments on scheme's assets:				
Gain/(Loss)	**25,718**	12,120	13,733	(42,746)
Percentage of scheme's assets	**7.4%**	4.1%	6.6%	(22.5%)
Experience adjustments on scheme's liabilities:				
Gain/(Loss)	**(13,447)**	(20,533)	1,476	2,627
Percentage of scheme's liabilities	**(3.0%)**	(5.5%)	0.5%	1.0%
Fair value of scheme's assets	**349,089**	298,152	207,531	190,041
Present value of scheme's liabilities	**447,306**	373,106	278,188	260,245
Scheme's deficits	**98,217**	74,954	70,657	70,204

The contributions expected to be paid in the financial year ended 31 December 2006 amount to £10.0 million.

35. 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.

36. Share capital

	2005 £'000	2004 £'000
Ordinary shares of 5p each		
Authorised: 640,000,000 shares (2004: 640,000,000)	**32,000**	32,000

	No of shares	Nominal value £'000	Net consideration £'000
Allotted and fully paid:			
Balance at 1 January 2005	429,631,478	21,481	
Issued on exercise of executive share options	1,823,740	90	2,464
Issued on exercise of SAYE share options	114,963	6	339
Scrip dividends	1,652,955	83	4,979
Balance at 31 December 2005	**433,223,136**	**21,660**	

Year of grant	No of ordinary shares under option	Exercise price per share	Exercise period From	Exercise period To
i) Meggitt 1998 Sharesave Scheme:				
1998	1,748	133.79p	01.10.05	31.03.06
2000	125,821	147.48p	01.01.06	30.06.06
2000	40,848	147.48p	01.01.08	30.06.08
2002	166,260	127.98p	01.01.06	30.06.06
2002	232,706	127.98p	01.01.08	30.06.08
2002	32,326	127.98p	01.01.10	30.06.10
2005	727,074	220.50p	01.06.08	30.11.08
2005	697,541	220.50p	01.06.10	30.11.10
2005	205,553	220.50p	01.06.12	30.11.12
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	43,807	151.22p	20.04.01	19.04.08
1998	6,227*	101.94p	25.09.01	24.09.08
1999	38,766	157.58p	01.10.02	30.09.09
2000	16,828	189.36p	14.12.03	13.12.10
2002	49,726	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:				
1999	87,665	157.58p	01.10.02	30.09.06
2000	249,150	189.36p	14.12.03	13.12.07
2001	555,326	133.20p	27.09.04	26.09.08
2002	1,633,758	159.76p	17.10.05	16.10.09
2003	1,657,854	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
iv) Meggitt Executive Share Option Scheme 2005:				
2005	486,755	325.50p	10.10.08	09.10.15
2005	1,446,051	325.50p	10.10.08	09.10.15

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 38.

37. Share based payment

1996 No 1 & No 2 Executive Share Option Schemes and Executive Share Option Scheme 2005

Share options are granted to certain senior executives at an exercise price equal to the market price of the shares on the date the grant is made. The options are exercisable at the earliest three years after the grant is made. Options can only be exercised if the Group meets an earnings per share performance condition. The Group has no obligation, legal or constructive, to settle the options in cash.

Movements in the number of outstanding share options and their related weighted average exercise price are as follows:

	2005 Average exercise price pence	**2005 Number of options outstanding '000's**	2004 Average exercise price pence (*)	2004 Number of options outstanding '000's (*)
Balance at 1 January	**188.03**	**8,325**	168.24	8,142
Granted	**325.50**	**1,932**	241.29	2,025
Lapsed	**–**	**–**	170.50	(368)
Exercised	**135.37**	**(1,841)**	156.25	(1,474)
Balance at 31 December	**226.68**	**8,416**	188.03	8,325

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

The fair value of the options was determined using the Black-Scholes option pricing model. The fair value of options granted during the year was £1,568,000 (2004: £1,481,000). The significant assumptions used in the model were:

	2005 Award in October	2004 Award in October	2004 Award in April
Share price at date of grant (pence)	**325.50**	246.00	203.72
Exercise price (pence)	**325.50**	246.00	203.72
Vesting period (years)	**3**	3	3
Expected volatility	**35%**	40%	40%
Expected option life (years)	**5**	5	5
Risk free rate	**4.10%**	4.85%	4.85%
Expected dividend yield	**3.10%**	3.25%	3.25%

Expected volatility figures are based on historical volatility over the last three years measured using a statistical analysis of daily share prices.

Share appreciation rights

Under the terms of the Meggitt Executive Share Option Scheme 2005 the Group may issue share appreciation rights (SARs) to certain overseas employees. The Group is required to pay the intrinsic value of the SAR to the employee at the date of exercise. The fair value of each SAR is determined using the Black-Scholes model reflecting the assumptions above. An expense of £114,000 (2004: £Nil) was recorded in the year. The Group has recorded a liability at the balance sheet date of £114,000 (2004: £Nil). The total intrinsic value was £1,367,000 (2004: £Nil).

Meggitt Equity Participation Scheme and Meggitt Equity Participation Plan 2005

Under the Meggitt Equity Participation Scheme the number of shares, if any, that an executive would ultimately have received was dependent on Meggitt's performance during a one-year period commencing at the beginning of the financial year preceding that in which the award was made (the 'measurement period'). Performance was measured by comparing the Total Shareholder Return ('TSR') achieved by Meggitt with that of other companies in a comparator group chosen by the Remuneration Committee. The Meggitt Equity Participation Scheme was replaced by the Meggitt Equity Participation Plan 2005 during the year.

Under the Meggitt Equity Participation Plan 2005 an annual award of shares may be made to certain senior executives under the Plan. The number of shares if any, that an executive will ultimately receive, will depend on Meggitt's performance during a three year period commencing at the beginning of the financial year in which the award is made (the 'measurement period'). Performance is measured by comparing the Total Shareholder Return ('TSR') achieved by Meggitt with that of other companies in a comparator group chosen by the Remuneration Committee.

The fair value of the award is measured using a Monte Carlo model. The assumptions used in the model with regard to expected dividend yield, expected volatility and risk free rate of return were consistent with those disclosed above in calculating the fair value of the options. The share price at the date the award was made was 318.50 pence (2004: 272.00 pence) and the fair value of the award was £2,330,000 (2004: £1,011,000).

38. Treasury shares

Treasury shares represent shares in the Company that 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 36.

At 31 December 2005 the trust held 75,944 ordinary shares (2004: 93,747 shares) of which 6,227 were allocated to the Meggitt 1996 Executive Share Option Schemes (2004: 24,030 shares) and 69,717 were unallocated (2004: 69,717) being retained by the Trust for future use. The shares were purchased in prior years and have a cost of £21,000 at 31 December 2005 (2004: £39,000).

The market value of the shares at 31 December 2005 was £275,000 (2004: £245,000) representing 0.02% of the issued share capital of the Company (2004: 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 receivables (see note 25).

39. Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Hedging and translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2004	14,761	155,475	14,118	–	53,892	238,246
Actuarial gains net of tax	–	–	–	–	6,957	6,957
Currency translation differences	–	–	–	(5,557)	–	(5,557)
Net income recognised directly in equity	–	–	–	(5,557)	6,957	1,400
Profit for the financial year	–	–	–	–	52,540	52,540
Employee share option schemes:						
Value of services provided	–	–	–	–	846	846
Proceeds from shares issued	78	2,403	–	–	–	2,481
Rights issue	6,413	174,023	–	–	–	180,436
Dividends	229	10,735	–	–	(24,493)	(13,529)
Balance at 31 December 2004	21,481	342,636	14,118	(5,557)	89,742	462,420
Actuarial losses	–	–	–	–	(16,400)	(16,400)
Currency translation differences	–	–	–	4,466	–	4,466
Net income recognised directly in equity	–	–	–	4,466	(16,400)	(11,934)
Profit for the financial year	–	–	–	–	66,235	66,235
Employee share option schemes:						
Value of services provided	–	–	–	–	7	7
Proceeds from shares issued	96	2,707	–	–	–	2,803
Dividends	83	4,896	–	–	(30,994)	(26,015)
Adoption of IAS 32 & IAS 39	–	–	–	–	3,890	3,890
Balance at 31 December 2005	**21,660**	**350,239**	**14,118**	**(1,091)**	**112,480**	**497,406**

40. Contractual commitments

	2005 £'000	2004 £'000
Capital Commitments		
Contracted for but not incurred – property, plant & equipment	8,851	2,547

Operating lease commitments

The Group leases various factories, warehouses and offices under non-cancellable operating leases. These leases have various lease periods, escalation clauses and renewal rights. Additionally, the Group also leases various items of plant and machinery under cancellable operating leases. The expenditure on operating leases is charged to the income statement as incurred and is disclosed in note 7.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005 £'000	2004 £'000
Not later than one year	**1,127**	776
Later than one year and not later than five years	**5,647**	5,350
Later than five years	**49,972**	56,572
	56,746	62,698

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 unprovided contingent liabilities arising from these commitments.

41. Cash inflow from operations

	2005 £'000	2004 £'000
Profit for the period	**66,235**	52,540
Adjustments for:		
Tax	**21,892**	18,116
Depreciation	**15,484**	13,159
Amortisation	**13,363**	4,768
(Profit)/Loss on disposal of property, plant & equipment	**(204)**	55
Finance income	**(4,874)**	(1,094)
Finance expense	**19,188**	12,489
Fair value losses on derivative financial instruments	**10,054**	–
Changes in working capital:		
Inventories	**(18,247)**	(3,374)
Trade and other receivables	**(5,881)**	2,550
Trade and other payables	**19,261**	3,203
Provisions	**(9,020)**	5,512
Cash generated from operations	**127,251**	107,924

42. Major non-cash transactions

During the year Meggitt PLC issued 1,652,955 shares worth £4,979,000 in respect of scrip dividends (2004: 4,577,903 shares worth £10,964,000).

43. Acquisitions

Total consideration paid in respect of acquisitions was as follows:

	2005 £'000	2004 £'000
Businesses acquired in 2005	**15,528**	–
Businesses acquired in 2004	**(16,046)**	441,087
Businesses acquired in earlier years	**–**	(640)
Total consideration (received)/paid	**(518)**	440,447

Acquisitions made in 2005

Acquisitions completed during 2005 were as follows:

1 August 2005: the business and assets of Avery-Hardoll

10 November 2005: Européenne de Conception et d'Etudes Technologiques (ECET) and Sensorex

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's book value £'000	Fair value £'000
Other intangible assets (see note 21)	214	**214**
Property, plant and equipment (see note 22)	2,379	**2,379**
Inventories	6,247	**4,006**
Trade and other receivables – current	4,337	**4,094**
Cash and cash equivalents	852	**852**
Trade and other payables – current	(3,674)	**(3,968)**
Bank and other borrowings – current	(426)	**(426)**
Bank and other borrowings – non-current	(1,087)	**(1,087)**
Provisions for other liabilities and charges – non-current (see note 32)	(173)	**(173)**
	8,669	**5,891**
Consideration satisfied in cash (including costs)		**15,528**
Goodwill on acquisition (see note 19)		**9,637**

Goodwill is attributable to the profitability of the acquired businesses and expected future synergies arising following the acquisitions. Goodwill on acquisitions is based upon a provisional allocation of fair values. These fair values, including the identification and measurement of intangible assets arising on the acquisition will be finalised during 2006.

No individual acquisition is considered significant. The acquired businesses in total contributed revenues of £5.3 million and a profit before taxation of £0.3 million to the Group results for the year. The acquired businesses would have contributed an additional £16.0 million of revenues and £2.2 million of net operating profits had they been part of the Group from 1 January 2005.

43. Acquisitions continued

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

	2005 £'000
Cash consideration	**14,581**
Directly attributable costs	**947**
	15,528
Less net cash acquired with subsidiary undertakings	**(852)**
Net outflow of cash and cash equivalents for acquisitions	**14,676**

Acquisitions in 2004 – amendment of provisional fair values

In August 2004 the Group acquired the Design and Manufacturing Division of Dunlop Standard Aerospace Group Limited ('Dunlop'). Additionally in December 2004 three businesses Wilcoxon Research US Inc., Schreiner Canada Limited and, from Eaton Aerospace LLC, the assets and business of certain flight-lock actuators for Boeing aircraft were acquired. At 31 December 2004 the Group had allocated provisional fair values to the net assets acquired as a result of these acquisitions. The Group finalised these fair values in 2005 including any adjustments arising from the transition to IFRS. In accordance with IFRS 3 these amendments have been recorded as though they were made in 2004. The impact on net assets was:

	Dunlop £'000	Other acquisitions £'000	Total £'000
Goodwill	(113,139)	(4,689)	**(117,828)**
Development costs	(3,902)	(172)	**(4,074)**
Other intangible assets	177,022	7,924	**184,946**
Property, plant and equipment	1,688	(104)	**1,584**
Trade and other receivables – non-current	(2,147)	–	**(2,147)**
Inventories	7,678	(195)	**7,483**
Trade and other receivables – current	13,622	(209)	**13,413**
Trade and other payables – current	(22,763)	(425)	**(23,188)**
Current tax liabilities	92	–	**92**
Trade and other payables – non-current	8,400	–	**8,400**
Retirement benefit obligations	(16,718)	–	**(16,718)**
Deferred tax liabilities	(39,934)	(1,958)	**(41,892)**
Provisions – non-current	(9,899)	(172)	**(10,071)**
Net assets	**–**	**–**	**–**

43. Acquisitions continued

Dunlop

The adjustments made in finalising the fair value adjustments for Dunlop are analysed as follows:

	Recognition of intangibles (a) £'000	Step up of inventory (b) £'000	Pensions (c) £'000	Other adjustments (d) £'000	**Total fair value £'000**
Goodwill	(123,915)	(5,944)	4,773	11,947	**(113,139)**
Development costs	–	–	–	(3,902)	**(3,902)**
Other intangible assets	177,022	–	–	–	**177,022**
Property, plant and equipment	–	–	–	1,688	**1,688**
Trade and other receivables – non-current	–	–	–	(2,147)	**(2,147)**
Inventories	–	8,492	–	(814)	**7,678**
Trade and other receivables – current	–	–	–	13,622	**13,622**
Trade and other payables – current	–	–	1,500	(24,263)	**(22,763)**
Current tax liabilities	–	–	–	92	**92**
Trade and other payables – non-current	–	–	8,400	–	**8,400**
Retirement benefit obligations	–	–	(16,718)	–	**(16,718)**
Deferred tax liabilities	(53,107)	(2,548)	2,045	13,676	**(39,934)**
Provisions – non-current	–	–	–	(9,899)	**(9,899)**
Net assets	**–**	**–**	**–**	**–**	**–**

a. The principal adjustment relates to the recognition, separately from goodwill of other intangibles that meet the definition of an intangible asset and whose fair value can be measured reliably. The intangible assets recognised comprise customer relationships (£130.8 million), technology (£34.1 million), order backlog (£5.8 million) and tradenames and trademarks (£6.3 million). These intangible assets are being amortised over their estimated useful lives.

b. IFRS 3 requires finished goods to be valued at selling prices less costs of disposal and a reasonable profit allowance for the selling effort. Work in progress (WIP) is valued at selling prices less costs to complete, costs of disposal and a reasonable profit allowance for the work yet to be completed. The fair value of inventory acquired is thus generally higher than that built post completion which includes no profit element. This inventory was all sold in the period to 31 December 2004.

c. This relates to the restatement of the pension deficit in accordance with IAS 19 following the transition to IFRS.

d. Other adjustments include the recognition of contract liabilities, review of development cost carrying values in accordance with the Group's policy, and purchase price adjustments.

During the year the Group received a net payment of £16.0 million. The amount related primarily to an amount of consideration held in escrow pending resolution of certain ongoing commercial issues and to normal adjustments on finalisation of the acquisition accounts.

Other acquisitions

The adjustments made in finalising the fair value adjustments for the other three acquisitions in aggregate are analysed as follows:

	Recognition of intangibles (a) £'000	Other adjustments £'000	**Total £'000**
Goodwill	(6,008)	1,319	**(4,689)**
Development costs	–	(172)	**(172)**
Other intangible assets	7,924	–	**7,924**
Property, plant and equipment	–	(104)	**(104)**
Inventories	–	(195)	**(195)**
Trade and other receivables – current	–	(209)	**(209)**
Trade and other payables – current	–	(425)	**(425)**
Deferred tax liabilities	(1,916)	(42)	**(1,958)**
Provisions – non-current	–	(172)	**(172)**
Net assets	**–**	**–**	**–**

a. The principal adjustment relates to the recognition, separately from goodwill of other intangibles that meet the definition of an intangible asset and whose fair value can be measured reliably. The intangible assets recognised comprise customer relationships (£5.2 million), technology (£1.6 million) and other intangibles (£1.1 million). These intangible assets are being amortised over their estimated useful lives.

44. Transition to IFRS

The main changes for the Group arising from the transition from UK GAAP to IFRS are as follows:

a. The Group has taken advantage of the exemption to apply IFRS 3 ('Business Combinations') with effect from 1 January 2004. The effects of IFRS 3 for the Group are:

   i. Goodwill is no longer amortised. Accordingly amortisation previously recorded in the year ended 31 December 2004 under UK GAAP has been reversed.

   ii. For acquisitions after 1 January 2004 the Group now identifies, separately from goodwill, the fair value of intangible assets that meet the IFRS 3 criteria to be recognised including customer relationships, technology, tradenames and order backlogs. These intangible assets are amortised over their useful lives to the income statement. Previously these intangible assets were not recognised separately from goodwill. Accordingly it is necessary to reclassify the fair values of such intangibles from goodwill and record the amortisation in the income statement.

   iii. When the fair values of the net assets of an acquired business are finalised the difference between those fair values and the book value of the net assets of the acquired business are recorded as though they had arisen on the date the acquisition was completed. Under UK GAAP any adjustments arising from the finalisation of fair values were recorded in the period in which they were made. Accordingly the balance sheet at 31 December 2004 needs to be adjusted to reflect fair value adjustments identified in 2005 relating to acquisitions completed in 2004.

   iv. Following the acquisition of a business IFRS requires the fair value of inventory acquired to be measured differently from UK GAAP. Under IFRS profit attributable to finished goods and work in progress at completion is included in the fair value of the acquisition rather than in the post acquisition trading profit. Under UK GAAP acquired finished goods and WIP were carried at the lower of cost and net realisable value and thus included no profit element. On transition to IFRS adjustments need to be made to goodwill and inventory to reflect the IFRS method of determining fair value. The income statement needs to be adjusted to reflect as an expense this increase in the value of inventory as it is utilised by the Group.

b. Under IAS 10 ('Events after the Balance Sheet Date') a final dividend is only recognised as a liability when it is approved by the shareholders. Accordingly it is necessary to eliminate final dividends that were previously recognised as a liability under UK GAAP but for which shareholder approval had not been received.

c. IAS 19 ('Employee Benefits') requires the deficits on the Group's defined benefit pension schemes to be recorded on the Group balance sheet. Accordingly the balance sheet needs to be adjusted to include such deficits and eliminate any balances previously recognised under UK GAAP. The charge to the income statement under IAS 19 comprises three components, a service cost, the expected return on pension scheme assets and the unwinding cost of interest on pension scheme liabilities. Accordingly the income statement needs to be adjusted to include these costs and eliminate any costs previously recognised under UK GAAP.

d. IFRS 2 ('Share-based Payment') requires an expense to be recognised in the income statement for all forms of share based payment including options, long term incentive plans and sharesave schemes. Previously an expense was only recognised under UK GAAP where there was a cash cost to the Group of providing the share scheme. Accordingly an additional expense has been recorded in the income statement on transition to IFRS 2.

44. Transition to IFRS continued

Further details on the effects of the transition are provided below:

Reconciliation of equity at 1 January 2004, the Group's transition date to IFRS

	Notes	UK GAAP £'000	Adjustments £'000	IFRS £'000
Non-current assets				
Goodwill		318,877	–	318,877
Development costs		5,262	–	5,262
Other intangible assets	a	637	2,215	2,852
Property, plant and equipment	a	53,312	(2,215)	51,097
Trade and other receivables	b	–	17,917	17,917
Deferred tax assets	c	–	29,484	29,484
Investments available for sale		1,075	–	1,075
		379,163	**47,401**	**426,564**
Current assets				
Inventories		73,539	–	73,539
Trade and other receivables	d	115,014	(21,853)	93,161
Current tax recoverable		164	–	164
Deferred tax assets	e	7,121	(7,121)	–
Cash and cash equivalents		22,670	–	22,670
		218,508	**(28,974)**	**189,534**
Total assets		**597,671**	**18,427**	**616,098**
Current liabilities				
Trade and other payables	f	(77,175)	227	(76,948)
External dividend payable	g	(15,057)	15,057	–
Current tax liabilities		(17,130)	–	(17,130)
Bank and other borrowings		(7,789)	–	(7,789)
Provisions	h	–	(10,556)	(10,556)
		(117,151)	**4,728**	**(112,423)**
Net current assets		**101,357**	**(24,246)**	**77,111**
Non-current liabilities				
Trade and other payables	i	(3,790)	2,473	(1,317)
Deferred tax liabilities	j	(4,524)	1,595	(2,929)
Bank and other borrowings		(155,405)	–	(155,405)
Provisions	h	(45,677)	10,556	(35,121)
Retirement benefit obligations	k	–	(70,657)	(70,657)
		(209,396)	**(56,033)**	**(265,429)**
Total liabilities		**(326,547)**	**(51,305)**	**(377,852)**
Net assets		**271,124**	**(32,878)**	**238,246**
Equity				
Share capital		14,761	–	14,761
Share premium		155,475	–	155,475
Other reserves		14,119	(1)	14,118
Retained earnings		86,769	(32,877)	53,892
Total equity		**271,124**	**(32,878)**	**238,246**

44. Transition to IFRS continued

		£'000
a	Reclassify capitalised software costs to intangible assets	2,215
		2,215

		£'000
b	Reclassify other receivables due after more than one year to non-current assets	21,651
	Eliminate UK GAAP pension receivables	(3,734)
		17,917

		£'000
c	Reclassify deferred tax assets to non-current assets	7,121
	Eliminate deferred tax asset recognised on UK GAAP pension balances	(302)
	Recognise deferred tax asset on retirement benefit obligations	22,302
	Recognise additional deferred tax under IAS 12 ('Income Taxes')	363
		29,484

		£'000
d	Reclassify other receivables due after more than one year to non-current assets	(21,651)
	Other	(202)
		(21,853)

		£'000
e	Reclassify deferred tax assets to non-current assets	(7,121)
		(7,121)

		£'000
f	Eliminate UK GAAP pension payables	362
	Other	(135)
		227

		£'000
g	Eliminate proposed dividend approved after balance sheet date	15,057
		15,057

		£'000
h	Reclassify current liability element of provisions	10,556
		10,556

		£'000
i	Eliminate UK GAAP pension payables	2,338
	Other	135
		2,473

		£'000
j	Recognise additional deferred tax on share based payments	715
	Recognise additional deferred tax under IAS 12 ('Income Taxes')	880
		1,595

		£'000
k	Recognise retirement benefit obligations under IAS 19 ('Employee Benefits')	(70,657)
		(70,657)

44. Transition to IFRS continued

Reconciliation of equity at 31 December 2004

	Note	UK GAAP £'000	Effect of acquisitions £'000 (*)	Adjustments £'000	IFRS £'000
Non-current assets					
Goodwill	a	610,045	(117,828)	23,550	515,767
Development costs		18,503	(4,074)	–	14,429
Other intangible assets	b	285	184,946	(146)	185,085
Property, plant and equipment	c	113,055	1,584	(3,089)	111,550
Trade and other receivables	d	–	(2,147)	48,799	46,652
Deferred tax assets	e	–	–	28,850	28,850
Investments available for sale		1,075	–	–	1,075
		742,963	**62,481**	**97,964**	**903,408**
Current assets					
Inventories	f	106,351	7,483	(8,492)	105,342
Trade and other receivables	g	167,973	13,413	(51,385)	130,001
Current tax recoverable		106	–	–	106
Deferred tax assets	h	8,192	–	(8,192)	–
Cash and cash equivalents	i	43,951	–	(1,219)	42,732
		326,573	**20,896**	**(69,288)**	**278,181**
Total assets		**1,069,536**	**83,377**	**28,676**	**1,181,589**
Current liabilities					
Trade and other payables	j	(118,363)	(23,188)	713	(140,838)
External dividend payable	k	(20,623)	–	20,623	–
Current tax liabilities		(16,216)	92	–	(16,124)
Bank and other borrowings		(5,914)	–	–	(5,914)
Provisions	l	–	–	(21,604)	(21,604)
		(161,116)	**(23,096)**	**(268)**	**(184,480)**
Net current assets		**165,457**	**(2,200)**	**(69,556)**	**93,701**
Non-current liabilities					
Trade and other payables	m	(11,427)	8,400	1,052	(1,975)
Deferred tax liabilities	n	(13,841)	(41,892)	4,597	(51,136)
Bank and other borrowings		(366,242)	–	–	(366,242)
Provisions	l	(51,915)	(10,071)	21,604	(40,382)
Retirement benefit obligations	o	–	(16,718)	(58,236)	(74,954)
		(443,425)	**(60,281)**	**(30,983)**	**(534,689)**
Total liabilities		**(604,541)**	**(83,377)**	**(31,251)**	**(719,169)**
Net assets		**464,995**	**–**	**(2,575)**	**462,420**
Equity					
Share capital		21,481	–	–	21,481
Share premium		342,636	–	–	342,636
Other reserves		14,118	–	–	14,118
Retained earnings		86,760	–	(2,575)	84,185
Total equity		**464,995**	**–**	**(2,575)**	**462,420**

(*) Certain fair value adjustments were identified during 2005 relating to acquisitions made in 2004. Under IFRS prior year comparatives are restated to reflect these fair value adjustments (see note 43).

		£'000
a	Reversal of goodwill amortisation charged in 2004	24,981
	Impact of foreign exchange on amortisation reversal	(1,412)
	Other	(19)
		23,550

		£'000
b	Reclassify capitalised software costs to intangible assets	3,089
	Amortisation of intangibles acquired in business combinations	(3,272)
	Other	37
		(146)

44. Transition to IFRS continued

		£'000
c	Reclassify capitalised software costs to intangible assets	(3,089)
		(3,089)

		£'000
d	Reclassify non-current receivables to non-current assets	52,634
	Eliminate UK GAAP pension receivables	(3,485)
	Adjust receivable relating to share based payment under IFRS 2 ('Share-Based Payment')	(350)
		48,799

		£'000
e	Reclassify deferred tax assets to non-current assets	8,192
	Eliminate deferred tax asset recognised on UK GAAP pension balances	(3,050)
	Recognise deferred tax asset on retirement benefit obligations	23,637
	Other	71
		28,850

		£'000
f	Revaluation of acquired inventory released as inventory consumed (see note 10)	(8,492)
		(8,492)

		£'000
g	Reclassify non current other receivables and deferred costs to non-current assets	(52,634)
	Impact of retranslating receivables at spot rate rather than at contract rate under IAS 21 ('The Effects of Changes in Foreign Exchange Rates')	1,249
		(51,385)

		£'000
h	Reclassify deferred tax assets to non-current assets	(8,192)
		(8,192)

		£'000
i	Impact of retranslating cash at spot rate rather than at contract rate under IAS 21 ('The Effects of Changes in Foreign Exchange Rates')	(1,219)
		(1,219)

		£'000
j	Eliminate UK GAAP pension payables	876
	Other	(163)
		713

		£'000
k	Eliminate proposed dividend approved after balance sheet date	20,623
		20,623

		£'000
l	Reclassify current liability element of provisions	21,604
		21,604

		£'000
m	Eliminate UK GAAP pension payables	999
	Other	53
		1,052

		£'000
n	Adjust deferred tax liability on intangible assets acquired in a business combination as those assets are amortised	982
	Adjust deferred tax liability on inventory acquired in a business combination as the inventory is consumed	2,548
	Deferred tax credit on share-based payment	1,217
	Other	(150)
		4,597

		£'000
o	Recognise IAS 19 ('Employee Benefits') retirement benefit obligations	(58,236)
		(58,236)

44. Transition to IFRS continued

Reconciliation of income for the year ended 31 December 2004

		UK GAAP £'000 (*)	Adjustments £'000	IFRS £'000
Continuing operations				
Revenue	a	**479,183**	**(2,610)**	**476,573**
Cost of sales	b	(261,231)	(8,057)	(269,288)
Gross profit		217,952	(10,667)	207,285
Net operating costs	c	(150,192)	24,958	(125,234)
Operating profit		**67,760**	**14,291**	**82,051**
Finance income		1,094	–	1,094
Finance costs	d	(12,245)	(244)	(12,489)
Net finance costs		(11,151)	(244)	(11,395)
Profit before tax from continuing operations		**56,609**	**14,047**	**70,656**
Tax	e	(22,031)	3,915	(18,116)
Profit for the year from continuing operations attributable to equity shareholders		**34,578**	**17,962**	**52,540**

(*)The UK GAAP numbers exclude dividends which under IFRS are shown as a movement in equity rather than on the face of the income statement.

		£'000
a	Adjust revenue to spot rate rather than at contract rate under IAS 21 ('The Effects of Changes in Foreign Exchange Rates')	(2,610)
		(2,610)

		£'000
b	Adjust cost of sales at spot rate rather than at contract rate under IAS 21 ('The Effects of Changes in Foreign Exchange Rates')	435
	Revaluation of inventory acquired in a business combination released as inventory consumed (see note 10)	(8,492)
		(8,057)

		£'000
c	Reverse goodwill amortisation	24,981
	Record amortisation of intangibles acquired in business combinations	(3,272)
	Impact of accounting for share based payment expense under IFRS 2 ('Share-based Payment')	(667)
	Impact of accounting for retirement benefit obligations under IAS 19 ('Employee Benefits')	1,741
	Impact of recording operating expenses at spot rate rather than contract rate under IAS 21 ('The Effects of Changes in Foreign Exchange Rates')	2,175
		24,958

		£'000
d	Impact of accounting for pensions under IAS 19 ('Employee Benefits')	(244)
		(244)

		£'000
e	Impact of accounting for taxes under IAS 12 ('Income Taxes')	3,915
		3,915

45. Group Companies

The following information is not a complete listing of all subsidiary companies at 31 December 2005 but relates only to those subsidiaries principally affecting the profits or assets of the Group.

United Kingdom

Dunlop Limited ‡
Dunlop Holdings Limited ‡
Dunlop Aerospace Group Limited ‡
Dunlop Aerospace Overseas Limited ‡
Meggitt Defence Systems Limited
Meggitt Investments Limited*‡
Whittaker Aerospace Ltd‡
Dunlop Aerospace Limited
Dunlop Aerospace (UK) Limited ‡
Dunlop Aerospace Holdings Limited ‡
Meggitt (UK) Limited
Meggitt International Limited*‡
Meggitt Properties PLC*‡

Continental Europe

Européenne de Conception
d'Etudes Technologiques SA – France
Navarra de Componentes Electronicos SA – Spain
Sensorex SA – France
Meggitt BV – Netherlands‡
Piher International GmbH – Germany
Vibro-Meter SA – Switzerland

North America

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

Rest of World

Dunlop Aerospace (SE Asia) Pte Ltd – Singapore
Meggitt (Xiamen) Sensors & Controls Co Ltd – China

i) Companies listed above in the United Kingdom are incorporated in Great Britain and registered 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 2005.
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 31.

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

Independent Auditors' Report to the Shareholders of Meggitt PLC

We have audited the parent company financial statements of Meggitt PLC for the year ended 31 December 2005 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Meggitt PLC for the year ended 31 December 2005.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the parent company 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company 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, the five-year record and the other items listed in the contents on page 1. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005; and
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
6 March 2006

Company Balance Sheet

As at 31 December 2005

	Notes	2005 £'000	2004 Restated £'000
Fixed assets			
Tangible fixed assets	5	**877**	628
Derivative financial instruments	12	**1,556**	–
Investments	6	**164,825**	163,579
		167,258	164,207
Current assets			
Debtors	7	**940,015**	916,435
Derivative financial instruments	12	**4,065**	–
Deferred tax	11	**38**	–
Cash at bank and in hand		**11,918**	2,565
		956,036	919,000
Creditors – amounts falling due within one year	8	**(272,889)**	(263,417)
Net current assets		**683,147**	655,583
Total assets less current liabilities		**850,405**	819,790
Creditors – amounts falling due after more than one year	9	**(342,407)**	(360,626)
Deferred tax liabilities	11	**–**	(248)
Provision for liabilities and charges	10	**(458)**	(264)
Net assets		**507,540**	458,652
Capital and reserves			
Called up share capital	15	**21,660**	21,481
Share premium account	17	**350,239**	342,636
Other reserves	17	**17,556**	17,556
Profit and loss reserve	16	**118,085**	76,979
Total shareholders funds		**507,540**	458,652

The financial statements were approved by the Board of Directors on 6 March 2006 and signed on its behalf by:

T Twigger
Director

S G Young
Director

1. Basis of preparation

These financial statements have been prepared under the historical cost accounting convention, as modified to include the revaluation of certain assets, in accordance with the Companies Act 1985. The Company continues to prepare its annual financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP). These policies have been applied consistently from the preceding year except as disclosed below.

The Company has adopted FRS 17 'Retirement Benefits', FRS 20 'Share-based Payment', FRS 21 'Events after the Balance Sheet Date', FRS 23 'The Effect of Changes in Foreign Exchange Rates', FRS 25 'Financial Instruments: Disclosure and Presentation', FRS 26 'Financial Instruments: Measurement' and FRS 28 'Corresponding Amounts' in these financial statements. The adoption of each of these standards represents a change in accounting policy and comparative amounts have accordingly been restated except where the exemption to restate comparatives has been taken. Details of the effects of the changes in accounting policy are shown in note 3.

2. Summary of significant accounting policies

Investments

Investment in subsidiaries 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.

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
Fixtures and fittings	3 to 10 years
Motor vehicles	4 to 5 years

Operating leases

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.

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.

Provision for liabilities and charges

In accordance with FRS 12 provision is made for onerous lease costs. Provisions are discounted where appropriate to reflect the time value of money using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Loans

Loans are initially recognised at fair value being proceeds received less directly attributable transaction costs incurred. Loans are subsequently measured at amortised cost with any transaction costs amortised to the profit and loss account over the period of the loans. Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Foreign currencies

Local currency
The Company's financial statements are presented in pounds sterling being the currency of the primary economic environment in which the Company operates.

Transactions and balances
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences on retranslating monetary assets and liabilities are recognised in the profit and loss account except where they relate to qualifying cash flow or investment hedges in which case the exchange differences are deferred in equity.

Pension scheme arrangements

The Company operates two defined benefit schemes, the Meggitt 1990 Plan and the Meggitt Executive Pension Plan (MEPP). As the Company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis the Company accounts for both schemes as though they were defined contribution schemes. Accordingly the amount charged to the profit and loss account 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.

Share-based payment

The fair value of the services received from employees of the Company is recognised as an expense in the profit and loss account over the period for which services are received (vesting period). Equity instruments issued to employees of subsidiary companies are treated as a capital contribution and recorded as an increase in the cost of investment in the subsidiary company.

For equity settled share-based payment transactions the total amount recognised is based on the fair value of the equity instrument measured at the date the award is made. Assumptions are made as to the total number of equity instruments that will vest and this assumption is reviewed at each balance sheet date. The impact of any revision to vesting estimates is recognised in the profit and loss account over the vesting period. Proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium.

2. Summary of significant accounting policies continued

For cash settled share-based payment transactions the total amount recognised is based on the fair value of the liability incurred. The fair value of the liability is remeasured at each balance sheet date with changes in the fair value recognised in the profit and loss account for the period.

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 cost of own shares held by the ESOP Trust is deducted from shareholders' funds.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date. To the extent that the maturity of the financial instrument is more than 12 months from the balance sheet date the fair value is reported as a non current asset or liability. Derivative financial instruments with maturities of less than 12 months from the balance sheet are shown as current assets or liabilities. The method by which any gain or loss is recognised depends on the designation of the derivative financial instrument:

Fair value hedges
Fair value hedges are hedges of the fair value of recognised assets or liabilities or a firm commitment. Interest rate swaps that change fixed rate interest to variable rate interest are an example of an instrument that would be treated as a fair value hedge assuming it meets the hedge criteria. Changes in the fair value of derivative financial instruments that are designated as fair value hedges are recognised in the profit and loss account together with changes in the fair value of the hedged item.

Cash flow hedges
Cash flow hedges are hedges of highly probable forecast transactions. Interest rate swaps that change variable rate interest to fixed rate interest are an example of an instrument that would be treated as a cash flow hedge assuming it meets the hedge criteria. Changes in the fair value of the effective portion of derivative financial instruments that are designated as cash flow hedges are initially recorded in a separate reserve within equity. To the extent that changes in the fair value are recorded in equity they are recycled to the profit and loss account in the periods in which the hedged item affects the profit and loss account. However, when the transaction to which the hedge relates results in the recognition of a non monetary asset (e.g. inventory) or a liability then gains and losses previously recognised in equity are included in the initial measurement of the cost of the non monetary asset or liability. If the forecast transaction to which the cash flow hedge relates is no longer expected to occur the cumulative gain or loss previously recognised in equity is transferred to the profit and loss account immediately. If the hedging instrument is sold, expires or no longer meets the criteria for hedge accounting the cumulative gains and losses previously recognised in equity are transferred to the profit and loss account when the forecast transaction is recognised in the profit and loss account.

Net investment hedge
Gains and losses on net investments of foreign subsidiaries are accounted for in a similar way to cash flow hedges. Gains and losses relating to the effective portion of any hedge are recognised in equity. Changes in the fair value of any ineffective portion are recognised in the profit and loss account. Cumulative gains and losses previously recognised in equity are transferred to the profit and loss account if the foreign business to which they relate is disposed of.

Derivatives that do not meet the criteria for hedge accounting
Where derivatives do not meet the criteria for hedge accounting changes in fair value are recognised immediately in the profit and loss account. The Company utilises a number of foreign currency forward contracts to mitigate against currency fluctuations. The Company has determined that the additional costs of meeting the extensive documentation requirements for the Company's large number of foreign currency forward contracts is not merited. Accordingly gains and losses arising from measuring the contracts at fair value are recorded immediately in the profit and loss account.

Capital instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are deducted from the proceeds recorded in equity.

Dividends

Interim dividends are recognised when they are paid. Final dividends are recognised when they are approved by the Company's shareholders.

Profit of the Company

The Company 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 and related notes (see Meggitt PLC Group accounts note 15)

Cash flow statement

The Company has taken advantage of the exemption under the terms of FRS 1 (revised 1996) from the requirement to produce a cash flow statement. A consolidated cash flow statement is included in the Meggitt PLC Group accounts.

Related party transactions

The Company has taken advantage of the exemption contained in FRS 8 from the requirement to disclose related party transactions within the Group.

3. Changes in accounting policy

	FRS17 £'000	FRS 20 £'000	Total £'000
Analysis of prior year adjustment:			
Adjustment to opening shareholders' funds at 1 January 2004	(1,255)	–	(1,255)
Adjustment to profit and loss account for the year ended 31 December 2004	84	(230)	(146)
Adjustment to profit and loss reserve	–	668	668
Adjustment to opening shareholders' funds at 1 January 2005 (see note 16)	**(1,171)**	**438**	**(733)**

As a result of adopting FRS 17, the Company is required to eliminate balances previously recognised on the balance sheet under its prior accounting policy for pensions. As a result of adopting FRS 20, the Company is required to recognise an increased cost of investment in any subsidiaries whose employees have been granted equity instruments in the Company and a cost in the profit and loss account in respect of equity instruments granted to employees of the Company.

Following the adoption of FRS 21 any liability previously recognised in respect of a final dividend is eliminated if it had not been approved by the Company's shareholders at the balance sheet date. Additionally FRS 25 requires dividends paid to be shown as a movement on profit and loss account reserves rather than on the face of the profit and loss account.

4. Staff costs

	2005 £'000	2004 £'000
Employee costs during the year including executive directors:		
Wages and salaries	**3,774**	2,627
Social security costs	**556**	405
Other pension costs (see note 13)	**868**	712
	5,198	3,744
Average monthly number of persons employed including executive directors:		
Administration	**31**	28
	31	28

5. Tangible fixed assets

	Land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost at 1 January 2005	245	1,706	1,951
Additions	–	435	435
Disposals	–	(77)	(77)
Cost at 31 December 2005	**245**	**2,064**	**2,309**
Accumulated depreciation at 1 January 2005	117	1,206	1,323
Charge for year	44	118	162
Disposals	–	(53)	(53)
Accumulated depreciation at 31 December 2005	**161**	**1,271**	**1,432**
Net book amount at 31 December 2005	**84**	**793**	**877**
Net book amount at 31 December 2004	128	500	628

	2005 £'000	2004 £'000
Net book amount of land and buildings		
Freehold	**84**	86
Short leasehold	**–**	42
	84	128

6. Investments

	2005 £'000	2004 Restated £'000
Shares in subsidiaries		
At 1 January 2005	**163,579**	152,395
Additions – Increase in share capital	**–**	10,746
Additions – Capital contribution arising from FRS 20	**1,246**	438
Balance at 31 December 2005	**164,825**	163,579

7. Debtors

	2005 £'000	2004 £'000
Amounts falling due within one year		
Amounts owed by Group companies	**939,507**	915,976
Other debtors	**397**	207
Prepayments and accrued income	**111**	176
	940,015	916,359
Amounts falling due after more than one year		
Other debtors	**–**	76
	–	76
	940,015	916,435

8. Creditors amounts falling due within one year

	2005 £'000	2004 £'000
Bank loans and overdrafts	**11,018**	4,683
Other loans	**339**	–
Trade creditors	**522**	285
Amounts owed to Group companies	**245,014**	244,605
Derivative financial instruments (see note 12)	**4,510**	–
UK corporation tax payable	**7,356**	9,386
Taxation and social security	**948**	790
Other creditors	**1,459**	1,109
Accruals	**1,723**	2,559
	272,889	263,417

9. Creditors amounts falling due after more than one year

	2005 £'000	2004 £'000
Bank loans	**195,855**	231,037
Other loans	**144,996**	129,589
Derivative financial instruments (see note 12)	**1,556**	–
	342,407	360,626

	2005 £'000	2004 £'000
Analysis of bank loans and overdrafts repayable:		
In one year or less	**11,018**	4,683
In more than two years but not more than five years	**195,855**	231,037
	206,873	235,720

	2005 £'000	2004 Restated £'000
Analysis of other loans repayable:		
In one year or less	**339**	–
In more than five years	**144,996**	129,589
	145,335	129,589

10. Provisions for liabilities and charges

	Onerous lease costs (a) £'000	Deferred tax (See note 11) £'000	Total £'000
Balance at 1 January 2005	264	248	512
Transfer to deferred tax asset	–	(248)	(248)
Charge to profit and loss account – operating costs	179	–	179
Charge to profit and loss account – interest costs	15	–	15
Balance at 31 December 2005	**458**	**–**	**458**

a. 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.

11. Deferred tax

	2005 £'000	2004 Restated £'000
Accelerated capital allowances	**(13)**	43
Other timing differences	**51**	(291)
Deferred tax asset/(liability)	**38**	(248)

12. Derivative financial instruments

	2005 Assets £'000	2005 Liabilities £'000	2004 Assets £'000	2004 Liabilities £'000
Interest rate swaps – fair value hedges	**–**	**(400)**	–	–
Forward foreign exchange contracts	**5,621**	**(5,666)**	–	–
Total	**5,621**	**(6,066)**	–	–
Less non-current portion:				
Forward foreign exchange contracts	**1,556**	**(1,556)**	–	–
Current portion	**4,065**	**(4,510)**	–	–

The Company is exempt from the FRS 25 disclosures as the consolidated financial statements of Meggitt PLC give the disclosures required by IAS 32 (see Meggitt PLC Group accounts notes 30 and 31).

13. Pensions

The Directors do not believe that the FRS 17 deficit for the Group is significantly different from the IAS 19 deficit reported in note 34 to the Meggitt PLC Group accounts.

14. Commitments

	2005 £'000	2004 £'000
Capital commitments		
Contracted for but not incurred – plant, equipment and vehicles	**–**	107

Operating lease commitments
The future aggregate minimum lease payments under non – cancellable operating leases are as follows:

	2005 £'000	2004 £'000
Within one year	**10**	–
Within two to five years	**–**	12
After more than five years	**327**	366
	337	378

15. Share Capital

	2005 £'000	2004 £'000
Ordinary shares of 5p each		
Authorised: 640,000,000 shares (2004: 640,000,000)	**32,000**	32,000

	No of shares	**Nominal value £'000**	**Net consideration £'000**
Allotted and fully paid:			
Balance at 1 January 2005	429,631,478	21,481	
Issued on exercise of executive share options	1,823,740	90	2,464
Issued on exercise of SAYE share options	114,963	6	339
Scrip dividends	1,652,955	83	4,979
Balance at 31 December 2005	**433,223,136**	**21,660**	

16. Profit and loss reserve

	£'000
At 31 December 2004 as previously reported	57,089
FRS 17 (see note 3)	(1,171)
FRS 20 (see note 3)	438
Dividends	20,623
At 31 December 2004 as restated	76,979
Profit for the financial year	70,384
Dividends	(30,994)
Employee share option schemes:	
Value of subsidiary employee services (see note 6)	1,246
Value of services provided	470
At 31 December 2005	**118,085**

17. Capital and reserves

	Share capital £'000	**Share premium £'000**	**Other reserves £'000**	**Profit and loss reserve £'000**	**Total 2005 £'000**	2004 Restated £'000
Balance at 31 December 2004 – as restated	21,481	342,636	17,556	76,979	458,652	235,992
Profit for the financial year	–	–	–	70,384	70,384	52,604
Dividends	–	–	–	(30,994)	(30,994)	(24,493)
Employee share option schemes:						
Value of subsidiary employee services (see note 6)	–	–	–	1,246	1,246	438
Value of services provided	–	–	–	470	470	230
Rights issue	–	–	–	–	–	180,436
Issued on exercise of executive share options	90	2,374	–	–	2,464	2,247
Issued on exercise of SAYE share options	6	333	–	–	339	234
Scrip dividends	83	4,896	–	–	4,979	10,964
Balance at 31 December 2005	**21,660**	**350,239**	**17,556**	**118,085**	**507,540**	458,652

Financial Calendar and Supplementary Information

Dividends

The proposed 2005 final dividend of 5.30p per share, if approved, will be paid on 7 July 2006 to shareholders on the register on 31 March 2006. The expected dividend payment date for the 2006 interim dividend is 1 December 2006.

Results Announcements (provisional)

2006 interim results announcement	– September 2006
2006 full year results	– Preliminary announcement March 2007
	– Report and accounts April 2007

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 2005

	No. of shareholders	% of total shares
Size of holdings:		
1–999	6,463	0.4
1,000–9,999	2,408	1.7
10,000–99,999	477	3.3
100,000–249,999	104	4.0
250,000–499,999	61	5.0
500,000–999,999	44	7.1
1,000,000 and over	88	78.5
	9,645	100.0

	No. of shareholders	% of total shares
Types of shareholder:		
Individuals	8,453	2.9
Banks and nominees	1,068	94.1
Investment and insurance companies	25	0.1
Other	99	2.9
	9,645	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

	2005 IFRS £'000	2004 IFRS £'000	2003 UK GAAP £'000	2002 UK GAAP £'000	2001 UK GAAP £'000
Revenue and profit					
Revenue	**616,317**	476,573	402,441	403,840	435,084
Underlying profit before taxation	**116,285**	90,299	77,847	70,312	72,438
Amortisation of goodwill	**–**	–	(20,185)	(18,111)	(18,261)
Amortisation of intangibles acquired in business combinations	**(10,883)**	(3,272)	–	–	–
Financial instruments	**(10,054)**	–	–	–	–
Revaluations of inventory acquired in business combinations	**(226)**	(8,492)	–	–	–
Operating exceptional items	**(6,995)**	(7,879)	–	–	–
Non operating exceptional items	**–**	–	(13,334)	(12,967)	2,728
Profit before taxation	**88,127**	70,656	44,328	39,234	56,905
Earnings and dividends*					
Earnings per share – basic	**15.4p**	13.9p	6.7p	5.5p	10.4p
Earnings per share – underlying	**20.0p**	17.4p	16.4p	14.9p	15.1p
Dividends per ordinary share (paid or proposed in respect of the year)	**7.70p**	7.00p	6.53p	6.09p	5.92p
Capital					
Average capital employed	**479,913**	366,772	265,240	254,026	233,552
Return on average capital employed	**18.4%**	19.3%	16.7%	15.4%	24.4%
Gearing ratio					
Year end net cash/borrowings as a percentage of capital employed	**63.2%**	71.2%	51.8%	54.2%	60.7%

The five-year record shows the figures reported in each respective year and excludes the effects of subsequent acquisitions and disposals. The figures for 2004 have been restated following the Group's transition to IFRS. It has not been practicable to restate earlier years with respect to this change which are instead reported under UK GAAP. The principal differences between UK GAAP and IFRS are set out in note 44.

*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.

Financial Advisors
N M Rothschild & Sons Limited

Auditors
PricewaterhouseCoopers LLP
Reading

Solicitors
Clifford Chance LLP

Company Registered No.
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