



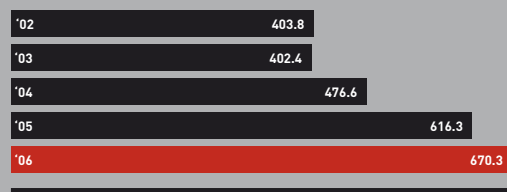
Meggitt PLC

Annual report and accounts 2006

MEGGITT
smart engineering for
extreme environments

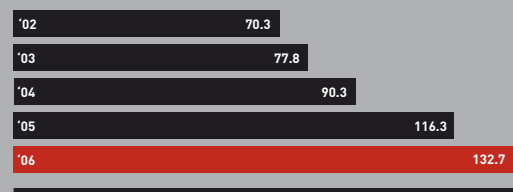
Financial highlights 2006

Meggitt PLC, headquartered in the United Kingdom, is an international aerospace and defence group employing some 6,400 people specialising in aerospace equipment, sensing and defence systems. Its consistent record of strong financial performance comes from businesses balanced across market segments; strong intellectual property linked to stable, growing aftermarkets; organic growth reinforced by acquisitions; and investment in people, facilities, operations and strategy-led technology development. Its companies operate within an evolving group infrastructure, combining talent and resources to benefit customers and operations.



Revenue (£ millions)

670.3



Underlying profit before tax (£ millions)*

132.7



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

133.8



Dividends per share (pence)

8.6



Underlying earnings per share (pence)*

22.3

*The definition of "underlying" is provided in note 10 to the financial statements on page 59. Figures for 2003 and earlier years have not been adjusted to take account of the transition to International Financial Reporting Standards.

Extremely smart

Meggitt's precision-engineered equipment and systems provide critical functionality in aircraft, ships, industrial gas turbines and land vehicles—smart engineering for extreme environments. Through design excellence, our products function to the highest standards of reliability and performance—despite operational extremes that include temperature cycling, vibration and contamination.

Engineered to perfection, our turbine clearance control valves endure temperatures over 500°C and still perform reliably. Our fireproof cables provide continuous power and control signals throughout the most severe fires and our fire detectors have never missed a true fire alarm over a billion flying hours.

At the electronics end of the spectrum, Meggitt's state-of-the-art monitoring systems deliver the most detailed images of engine condition ever; our high performance sensors are mandated for safety maintenance on spacecraft; and our pioneering electric brakes automatically balance and continuously correct the asymmetric drag intrinsic to aircraft landings.

Our defence products are just as smart. As the leading supplier of integrated live-fire and virtual weapons training worldwide, our weapons training business includes highly realistic simulation-based programmes. It is a smart proposition that is highly deployable—to soldiers on active service, for example.

We continue to sustain customer confidence by responding to their demands for innovation, quality, reliability and delivery, with a continuing focus on environment, safety, performance, economics and regulation. We are designing our products to be lighter, smaller, longer lasting, more intelligent and more efficient. From condition monitoring to improve aircraft efficiency to cost-effective training that works where and when military and security organisations need it, Meggitt moves with the times.

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Group capabilities



Percentage of group revenue

53.2%

Aerospace equipment

Wheels and brakes
Thermal management systems

- environmental control
- ice protection

Fluid control products
Fire, overheat and smoke detection
Polymer and composite seals



Revenue (£ millions)

356.6



Percentage of group revenue

32.7%

Sensing systems

Condition monitoring

- aerospace
- industrial

High performance sensors
Avionics

- medical
- industrial
- defence
- test and measurement



Revenue (£ millions)

218.9



Percentage of group revenue

14.1%

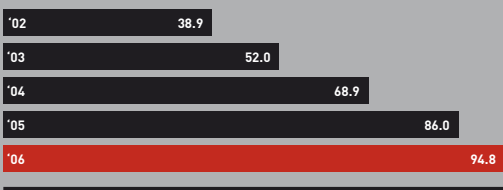
Defence systems

Training systems

- live fire
- virtual

Combat systems

- ammunition-handling
- environmental control
- countermeasure launch and recovery



Revenue (£ millions)

94.8

Chairman's statement



Sir Colin Terry
Chairman

Meggitt delivered another outstanding financial result in 2006. We continue to pursue our goal of delivering upper quartile returns through leadership positions in our chosen markets, improved customer service, operational efficiency and organisational effectiveness.

Revenues increased 9% to £670.3 million and underlying profit before taxation was up 14% to £132.7 million. Profit for the year increased by 47% to £96.5 million. Cash flow was again strong with 90% of underlying operating profit converted to cash and the order book at 31 December 2006 19% higher than the same time last year. Acquisitions are being integrated according to plan, delivering performances in line with expectations.

2006 saw continued improvements in our main aerospace and defence markets. Prospects for the civil aerospace market remain excellent with growth in the large jet, business and light jet and general aviation segments and we expect continuing demand for our military products. Against a background of these favourable market conditions and with the group's order book strong, we are confident we will deliver further growth in 2007.

Given our continued strong performance, the board is proposing a 13% increase in the final dividend to 6.0 pence.

Investing for the future

We continue to support organic growth by acquiring complementary businesses. The year's significant acquisition was Firearms Training Systems Inc (FATS) for £68.3 million. This was completed in October and the business is being integrated successfully into our defence systems division. We also acquired Keith Products LLP, a vapour cycle equipment manufacturer, for an initial consideration of £16.6 million and Radatec Inc, a microwave-based sensing business for an initial consideration of £1.4 million.

Research and development (including customer funded) in the year amounted to 9% of revenue (£57.6 million) to provide the new products and technologies needed to underpin future sales. With significant investment in updating our manufacturing facilities, Meggitt's capital expenditure increased to £31.4 million, up from £16.2 million in 2005.

People

Meggitt is growing and, to sustain this growth, we have reviewed our human resource programmes to ensure we have people who can realise the group's ambitions. We have strengthened our central management team to lead improvements in operations, information technology, strategy and marketing and implemented systems to improve the development of people at all levels.

In December, David Williams joined the board as a non-executive director. David, a chartered accountant, was Finance Director of Bunzl PLC from 1991 until his retirement in January 2006. Before that, he held senior financial positions with RHM and Tootal Group. He is a non-executive director of George Wimpey Plc and Tullow Oil plc and, until earlier this year, held a similar role with P&O.

A successful business depends on the skills and hard work of its employees and I would like to congratulate all at Meggitt for their excellent performance this year.

Group strategy



Terry Twigger
Chief Executive

Meggitt's goal is to be among the upper quartile performers in our sectors—aerospace and defence primarily, complemented by niche positions that include land and marine-based gas turbine operations. We will reach this goal by continuing to evolve our group and adhering to a set of tried-and-tested strategy fundamentals.

We invest in technology

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

We invest in strong aftermarket businesses

We design and develop our products to enable us to gain sole source positions on many programmes. This means we are well-placed to look after them throughout their service lives (up to 35 years where aircraft are concerned), achieving consistent, predictable and long-term aftermarket revenues.

We balance our interests

Meggitt offsets variation in market demand by spreading risk. We balance our exposure to civil markets with military markets; and sales to original equipment manufacturers with sales of aftermarket services. We are on a wide range of aircraft types to avoid dependence on single customers and programmes; and we balance business in North America with business in Europe and Asia.

We invest in attractive markets

Aerospace equipment

Meggitt's extensive range of aerospace equipment—electromechanical components and systems—provides investors with stable, long-term growth and dependable aftermarket returns. We direct our investment towards winning new programmes, improving performance and driving out cost, boosting organic growth with strategic acquisitions and enhancing component sales with sales of larger packages of integrated products.

Sensing systems

We have the ability to measure virtually every critical parameter and our sensors are designed to perform without fail in severe conditions on engines at high temperature, on heart muscles and in the blood stream, in crash tests and at missile launches.

The market for condition-based monitoring and maintenance of high value assets such as aero-engines in particular is growing rapidly, driven by safety, environmental regulation and the need for fuel economy. Meggitt has the leading technologies—high performance sensors and advanced processing electronics—and we are investing heavily to sustain our leadership position in this market.

Defence systems

Meggitt's defence systems business has positioned our training arm to become a comprehensive weapons training supplier across live and virtual fire in line with modern military training philosophy. We continue to carve out niches in combat support covering environmental control, ammunition-handling and countermeasure systems.

We work as a group

We are investing in a group-wide infrastructure to ensure we remain successful as we grow. With group appointments in operations excellence, organisational development, strategy and marketing, information services, export control and ethics, we are standardising the processes, practices and structures that will lead to simpler and more nimble operations. Senior account managers are strengthening the strategic supplier relationships that will underpin our major bids and our new Brussels and Washington offices are promoting Meggitt's

activities as a whole, equipping us to take advantage of government procurement and funding opportunities.

We focus on operational excellence

In 2006, we created a central operations excellence function to ensure that best practice is spread throughout the group and we continued to invest in factory extensions, refurbishments and relocations, consolidation and process re-engineering. These were complemented by international procurement and strategic sourcing initiatives, all of which will ensure that we remain cost-competitive and meet the increasing demands of our customers.

We invest in our people

We pride ourselves on the culture of strong performance and financial management that characterises our

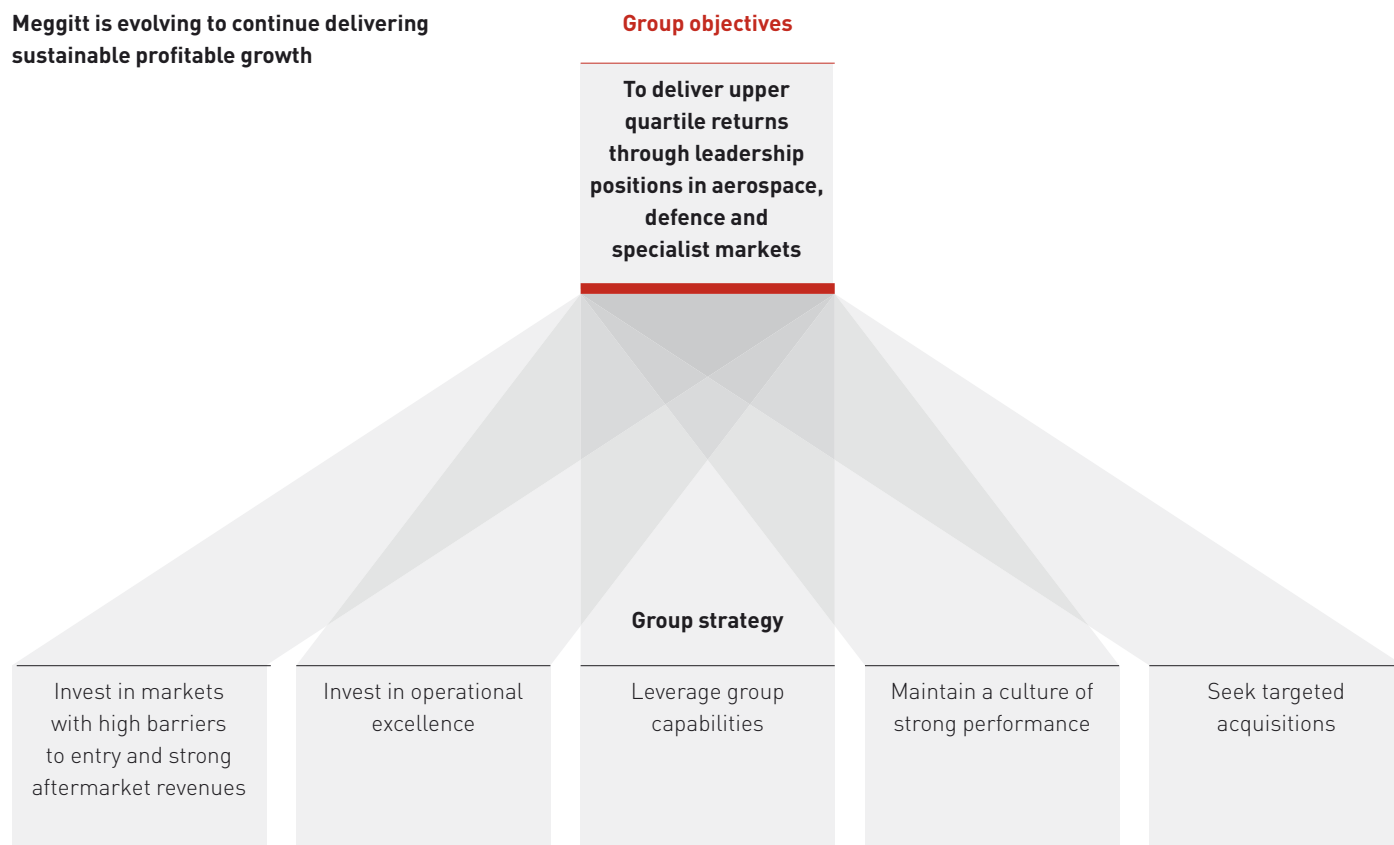
group. Our people have always set and met high standards and we will continue to support, train, develop and reward them so they are equipped to fulfil the needs of our fast-growing business.

We grow organically and by acquisition

We have a strong track record of organic growth and successfully finding and integrating acquisitions. We will continue to look for opportunities to develop our markets, enhance our technologies and strengthen our leadership positions.

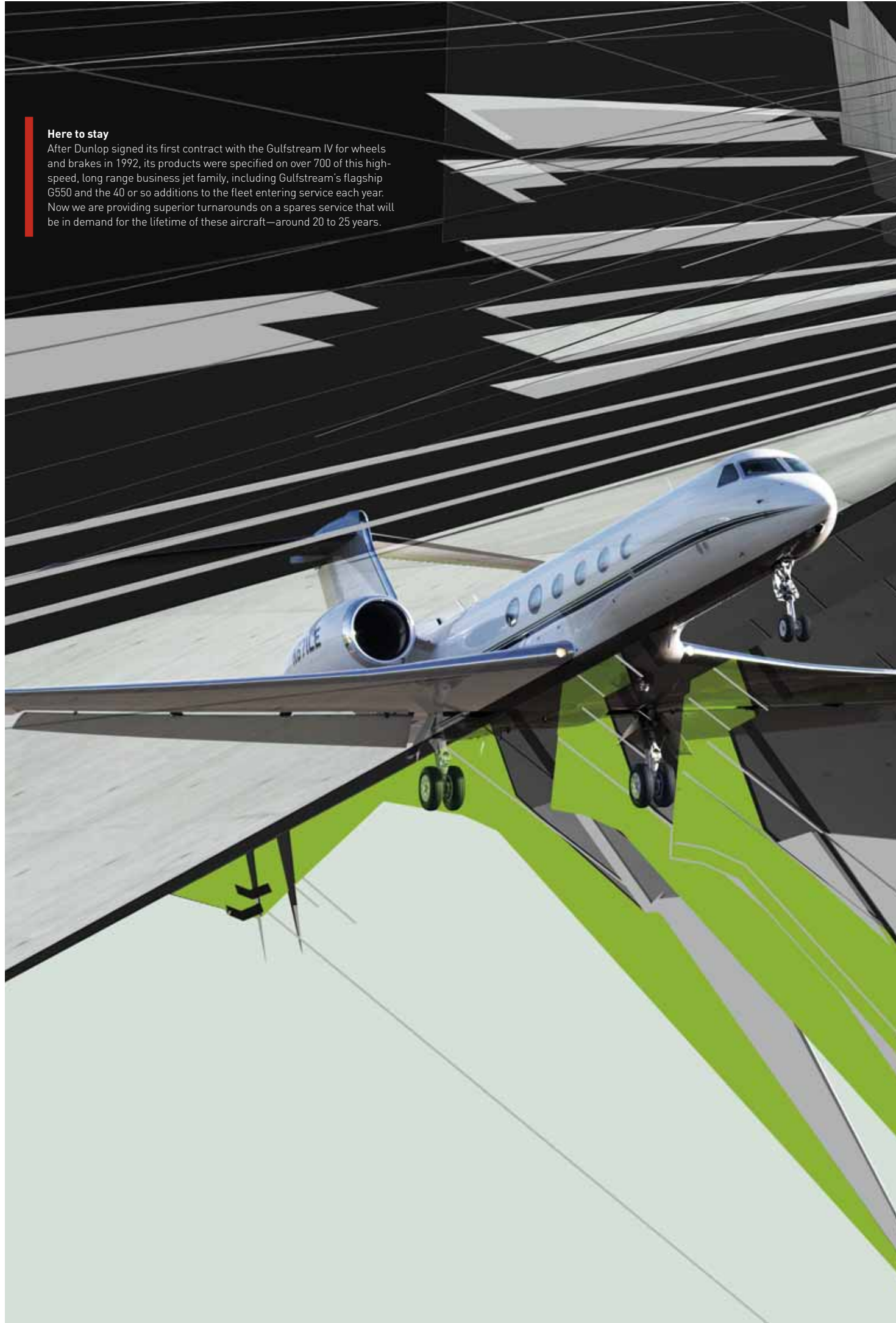
While our business model evolves to match changing market conditions, these strategy fundamentals will continue to underline the group's direction and deliver the profits, strong cash flow and returns our shareholders have come to expect.

Meggitt is evolving to continue delivering sustainable profitable growth



Here to stay

After Dunlop signed its first contract with the Gulfstream IV for wheels and brakes in 1992, its products were specified on over 700 of this high-speed, long range business jet family, including Gulfstream's flagship G550 and the 40 or so additions to the fleet entering service each year. Now we are providing superior turnarounds on a spares service that will be in demand for the lifetime of these aircraft—around 20 to 25 years.



Strong aftermarket

Long-term growth, dependable returns

Meggitt's aerospace equipment businesses—wheels and brakes, thermal management systems, fluid controls, safety systems and polymers and composites—are designed for critical functions in hostile environments. Largely used on aero-engines and airframes, these products suffer extreme wear and tear requiring large volumes of spares and repairs.

The aftermarket is driven by aircraft usage and offers stable, long-term growth. Revenue comes not only from selling original equipment to new aircraft models but the spares and repairs needed to keep fleets flying for around three to four decades. And since we are usually sole suppliers to a programme, dependable returns flow over the long-term. Take our braking systems business, for example. It supplied a set of eight main wheels and brake sets to a jet entering service in 1984. Since then, we have equipped 250 of these aircraft, one of which lands around every two minutes. The wear generated in our brakes' carbon composite heat packs by these landings means they must be replaced approximately every two years. We also provide maintenance services and incidental spares. That's why the aftermarket income for each aircraft's life can amount to around £1 million.

Some 19,000 Dunlop wheel and brake assemblies 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 also support our customers with total care packages covering inventory control, spares distribution and third-party supply management. Our services are underpinned by practices that reduce cost and improve performance. Smarter sourcing, consolidating facilities, integrating activity and continuing to develop management tools and processes ensure our operations run more smoothly and economically.

We know that investment in product development remains critical if we are to win the original equipment contracts of today that generate the aftermarket sales of tomorrow. That's why after 60 years in aerospace, Meggitt products can be found on virtually every aircraft in service and why, as military and civil airframe build rates ebb and flow, our business with the world's aerospace industry scarcely falters.

John Hindmarsh

**Operation, Development & Support Manager
Dunlop Aerospace Braking Systems, England**

I've been speeding up and reducing the cost of manufacturing at Dunlop for over 20 years, including redesigning our operations processes in 1994 when we reduced lead-times by up to 75 per cent.

Lean manufacturing—and the continuous improvement that keeps Lean dynamic—is a passion but nothing can beat helping evolve a collaborative culture where all our people are excited by the challenge of running this factory better. I get a real buzz helping people solve problems independently,

like the team who saved us around £600,000 over the last two years through better energy management and other improvement projects.

You can see the difference you make in my job—energy bills going down, productivity rising. Now I am putting in management systems to protect and improve the performance of over £40 million worth of plant and equipment. You just can't stand still in our business.



Health monitoring

Leading-edge technologies

Condition-based monitoring and maintenance of gas turbines in the aerospace, marine and power generation sectors is a high tech, high growth market in which Meggitt has the leading technologies—high performance sensors and advanced processing electronics.

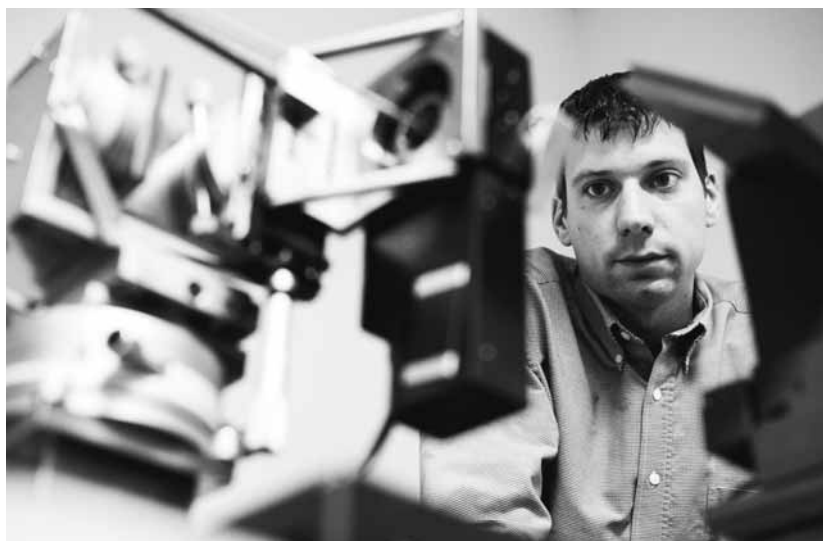
The market, which Meggitt's solutions have played a role in creating, is driven by the need to optimise maintenance regimes that lower the cost of owning high value assets; help maximise fuel economy; and meet environmental regulation—our products help reduce noise and noxious emissions. It is an important part of our sensing systems business and we are investing in it heavily to sustain our technological leadership, increase sales and maintain excellent customer service.

Meggitt's portfolio of high performance sensors enables us to measure the critical parameters needed to monitor gas turbines and our proprietary electronic processing makes the data operationally useful. Combined, they have enabled us to create the state-of-the-art monitoring systems that deliver the detailed images of engine condition needed to manage engine maintenance efficiently. This unique technology can also be applied to airframe applications such as landing gear and wheels and brakes as

operators increasingly subscribe to the importance of planned preventive maintenance across a range of high value assets.

Meggitt's customer credibility arises from our significant installed base of products. We are on virtually every large civil aircraft flying today and the Airbus A380 and Boeing 787, where we are alone in demonstrating the on-engine capability required by engine manufacturers supplying power by the hour. Exceptional customer service is a matter of public record—we are regularly voted amongst Airbus' top suppliers by its customers, last year achieving a Gold award.

In 2006, we acquired the breakthrough turbine tip clearance measurement technology of US start-up Radatec and we engaged in an innovative licensing arrangement with AeroMechanical Services. Its airborne autonomous data collection and reporting systems are enabling us to distribute the valuable information from our condition monitoring systems to financial, operations and maintenance decision-makers on the ground. With two-way communication features, problems can be solved in-flight or by ground staff alerted to the need for unscheduled maintenance within 20 seconds of the data being collected and processed into operationally-useful information.



Jon Geisheimer

**Founder and Technology Lead, Radatec, USA,
now Senior Engineer, Meggitt Sensing Systems, Switzerland**

At Georgia Tech, I explored radar biometrics. Today, I use radar to measure mechanical movement. Radatec was founded when NASA provided development funding for a concept involving a radar-based technology that measures components moving fast in hostile environments, such as gas turbine engine blades. We went on to pull more information out of a signal than anyone else, anywhere.


At Meggitt Sensing Systems, we are bringing this important technology to commercial fruition—just when every aircraft engine manufacturer

has identified rotor blade measurement and monitoring as critical to reducing greenhouse gas emissions and fuel consumption and preventing unnecessary hot-section overhauls and loose blades destroying engines. Meggitt has an outstanding reputation in the market and knows how to introduce new products. It is profoundly rewarding to have solved a very difficult problem and stand now on the brink of making it useful with the management team that knows how to do it.

Green machines

Next generation engines could include Radatec's new turbine blade clearance measurement tools. Achieving a 0.25 millimetre clearance between the case and the tip of a turbine blade can improve fuel efficiency by one per cent, reduce noxious emissions by ten per cent and decrease exhaust gas temperature by 6°, extending engine life. Across large fleets of aircraft and industrial gas turbines, such gains are significant.





Training for real

Combining Firearms Training Systems with Meggitt Defense Systems Caswell means law enforcement and military personnel can learn to handle weapons in virtual scenarios so realistic that the only missing element is the cordite and hot brass. Beyond field combat scenarios, we cover hostage rescue, securing and moving through buildings, aircraft takeoff, port and convoy protection and incidents such as train derailments, chemical spills, brown-outs and severe weather.

Training systems

Strategic acquisitions boost organic growth

Over several years, organic growth at Meggitt has been boosted by an acquisitions programme that has successfully fast-tracked product and market developments in areas of strategic importance.

In 2006, Meggitt's defence systems business made one of its most significant acquisitions since live fire training specialist Caswell in 2003. Virtual weapons training specialist, Firearms Training Systems (FATS) combined with Caswell not only expanded the scale of our defence systems operations internationally, it repositioned Meggitt's training systems offer: we are now the leading supplier of integrated live-fire and virtual weapons training worldwide.

FATS' simulation-based training programmes prepare men and women who work in military, law enforcement and security organisations to develop effective judgement, practice rules of engagement, refine tactical prowess and train with their complement of weapons systems. FATS' extensive simulated weapons arsenal includes over 250 weapons from handguns to artillery pieces, which include the world's first wireless weapons using the company's patented *Bluefire* technology for greater mobility, realism and

real-time diagnostics. Its library of filmed and computer-generated training scenarios is the industry's most extensive and, with its integrated platforms, multiple users can interact on a common virtual battlefield, even if geographically separated.

Now Meggitt is well-positioned to capture a larger share of US military business with a training capability that meets the requirements of modern military doctrine—flexible solutions that maximise the cost-effectiveness and efficiency of live and virtual training in network-centric combat scenarios. The UK Ministry of Defence is also a significant FATS customer.

Deployability is fundamental to our approach to training. Our global presence means that not only can our tools and techniques address almost any combat training requirement—and a significant range of scenarios requiring skilled incident response involving multiple agencies—we take our training to users. From fly-out packages that can be set up in the desert for soldiers on active service, to configurations suitable for the offices of security personnel guarding buildings, this new and highly-effective integrated capability can be used almost anywhere, any time.

LtCol Rich Haddad

**USMCR, Vice President, Business Development
Meggitt Defense Systems, United States**

After seven years' active duty in the US Marine Corps, I took a marketing MBA and started my career in industry.

It was 2004 when Meggitt gave me the opportunity to exploit my military and business experience developing its newly-acquired live weapons training arm. It took a huge leap forward when we acquired FATS and its virtual firing capability.

Today, I am supporting this integrated business in a wider divisional context, managing government relations and helping develop and manage complex military programmes.

I am also improving synergies within the division and within the group.

I am very lucky to be at Meggitt in one of its most significant evolutionary phases. On the one hand, there's all the excitement of hands-on activity with a group of entrepreneurial operating companies who are agile and responsive to opportunities. And on the other, there are roles to play in shaping the Meggitt group, an increasingly connected big business with wide horizons for ambitious people.



Operational excellence

Common structures, smarter sourcing, improved production efficiency

Meggitt is no stranger to operational excellence. However, with a new functional head comes the opportunity to identify areas of best practice from each of our businesses and create a network through which all Meggitt's experts in the field can share and solve problems and ensure the best standards are everyone's standards.

As we continue to develop common structures and approaches to project and programme management, Meggitt businesses will collaborate more, use resources better and expand customer services. In 2006, our sensing systems and wheel and brakes businesses reaped the rewards of a redesigned new product introduction process which delivered a more disciplined approach to product development, better technical and commercial risk management, renewed focus on the return on investment in the context of business planning and a high degree of customer satisfaction and compliance.

And we are enjoying the benefits of smarter direct and indirect sourcing. In 2006, the group saved around £2 million on industrial gases, telecoms, stationery, packaging, consumable tooling, factory supplies, logistics and travel and—less than two years since its inception—our international purchasing office in Singapore saved the group around £1 million, working with around two thirds of our businesses on machined parts, castings, electronic printed circuits, components,

plastics and electromechanical items. In 2007, these savings look set to double, encouraging us to approach strategic sourcing from a global Meggitt perspective and leverage the group's collective supply chain talent. Beyond sourcing, we are setting out a purchasing strategy for all our commodities in the context of local, national and global policies.

In 2006, we expanded, consolidated and relocated several manufacturing facilities. We expanded our polymers plant in Leicestershire, UK to accommodate a nearby related facility, we doubled the size of our sensors and controls facility in China and we are in the process of expanding our Swiss condition monitoring factory. Vibro-Meter in the US and in the UK, Meggitt Defence Systems, Ashford and Meggitt Thermal Systems, Dunstable (formerly Avica) relocated locally. We consolidated Meggitt Airdynamics with Whittaker Controls and, in 2007, three defence systems businesses will merge onto one site in California.

Every move, consolidation or expansion has deployed process reengineering to improve the way things are done as well as where they are done and there were plaudits from significant customers who experienced operationally seamless transfers and transformations. All projects showed how improved production efficiency goes hand in hand with the well-being of people at work in attractive spaces—good working environments where people can do their best.



Alan Lee

Director Asia Procurement, Meggitt Asia Pacific, Singapore

With K G Lim, Quality & Engineering Manager – Strategic Procurement (centre) and Roy Lee, Strategic Procurement Manager (right)

Whether you are in curtains or connectors, the art of procurement is about working across functions—and having a vision.

Before joining Meggitt, I thought nothing could match the excitement of sourcing millions of dollars worth of product in Asia and then replacing external sourcing with on-the-ground manufacturing here. I helped build two factories—and even ran one for a while.

Meggitt already manufactures in Asia and its sourcing goals

involve people more than bricks and mortar. Two years after we launched our international purchasing office in Singapore in 2004, we reduced costs across the group and saw the corporate face of Meggitt and its buying power rise to the fore in Asia. Now we are part of a compelling global initiative based on marshalling the entire group's collective supply chain talent into a truly strategic materials organisation that could save the group over \$25 million a year. Now that's what I call a vision.

Operational excellence, satisfied customers

Dunlop Aerospace Braking Systems' ultra high life brake-by-wire system for the Embraer Phenom 300 Light Jet programme is the first to be put through the company's new product introduction process. All milestones were met on or before their due dates.



Joint Strike Fighter

Multiple Meggitt companies have won product contracts on state-of-the-art combat aircraft such as the F-35 Joint Strike Fighter. Wheels and brakes, speed sensors and a thermal management system are some of them.

We will continue to ensure we understand what our government and defence customers want so we can access development funding and secure positions on the new military projects that will feed our programme pipeline.



Leveraging group capabilities

Investing in group infrastructure

Meggitt is a highly successful business and growing fast. That is why we have created important new functional roles in organisational development, strategy and marketing, information services, operations excellence and ethics and export compliance. We are driving common processes throughout the group, minimising risk, raising standards, enabling information to flow more easily and creating opportunities to reveal and exploit business synergies.

We are also strengthening relationships with the customers who drive our business. Key account managers are streamlining our approach to them, with group-based engineering solutions and routes to simplify procurement. Our new Washington office is fostering relations with the United States Department of Defense and other agencies. It is positioning us to access government development funds and ensuring the group has a full understanding of what government customers and the defence community wants from its suppliers in line with government policy, military doctrine and current and future programmes.

New representation in Brussels has formalised working relationships with appropriate legislative members and we are identifying developments, trends and opportunities to access development

funds in the context of the new European Defence Agency's procurement policies and civil and security technology programmes.

Meggitt is also evaluating opportunities across the group to share services. Our new information services function is enabling the secure communication and information-sharing needed to respond to customer opportunities from a group perspective including hosted e-mail and a move to a dedicated wide area network. We want information to flow more efficiently and effectively where and when it needs to so our operating companies can work with each other where possible across geographic and commercial boundaries, optimising group resources and serving customers from a wider perspective.

As the business grows, roles grow and so does the demand for talented people. Of the top 50 people in the company, nearly half have been appointed to new roles within the last two years. Of these, two thirds are new to Meggitt, refreshing our ideas and driving the business forward. Meggitt's growth makes it an attractive employer—in the same period we achieved a 100 per cent success rate in hiring our chosen candidate for senior positions. We are also investing in growing our own talent through systematic assessment, succession planning and, for 2007, the introduction of a high profile leadership programme.

Ed Boquist Vice President of Government Relations
LtCol Joyce McCallister USMC ret, Marketing & Customer Support, Marine Corps and Navy Programs, Washington DC

Ed: In 1999, I was a Meggitt contract lawyer. Now I lead the group's Washington DC office, ensuring Meggitt speaks with one voice on its technologies and capabilities. I still practise advocacy—putting Meggitt's strengths to the US government and alerting Meggitt to what government wants. We have a strong case: we can help government cut cost, promote readiness and buy conveniently, and with the leading technologies in our chosen fields, there is much we can develop for them.

Joyce: In the Marines, I specialised in aviation logistics,

at one point, as sole supply officer supporting 40 aircraft training in the desert. When I took a Masters in defence systems acquisition, helicopter programme management followed.

Today, I am putting 24 years' hard-won defence experience to good use at Meggitt. I work with engineers, programme managers and logisticians throughout the businesses, realising synergies, guiding them through the United States' complex defence contract and procurement environment and matching defence requirements to Meggitt capabilities.



Business review

Market review



Revenue by segment

■ Civil **44%**
■ Military **39%**
■ Other **17%**



Revenue by geographic destination

■ North America **49%**
■ Europe **23%**
■ UK **16%**
■ Rest of world **12%**

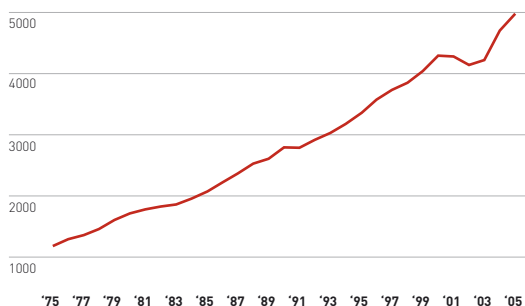
Meggitt's primary markets are in aerospace and defence, where our products and systems are designed to operate in harsh conditions, to the highest standards of reliability and safety. Our core technologies are also well suited to specialist related applications in the industrial gas turbine, energy, automotive and medical fields.

To protect our shareholders against the cyclical trends in individual segments, we balance our revenues between original equipment (OE) and their aftermarkets, civil and military applications and across a global customer base served from facilities in Asia, Europe and the US.

Meggitt's growth prospects for 2007 are good. Demand for air travel and new aircraft continues to rise strongly. Defence spending in the US remains strong too and, while the rate of growth is expected to slow in the near term, is close to a 50-year high. High technology markets continue to show interest in the extreme environment, high performance sensors and sensing systems in which Meggitt excels.

Civil aerospace

44% of Meggitt's revenues come from civil aerospace. Our products are on almost all aircraft in service and range from next generation larger platforms including the Airbus A380 and Boeing 787 to light jets such as the Embraer Phenom 300. The industry as a whole continues to move forward with exciting new programmes such as the Airbus A350 Extra Wide Body programme, all of which present opportunities for Meggitt to feed its product pipeline and secure future aftermarket business—the service and spares required to keep aircraft flying.



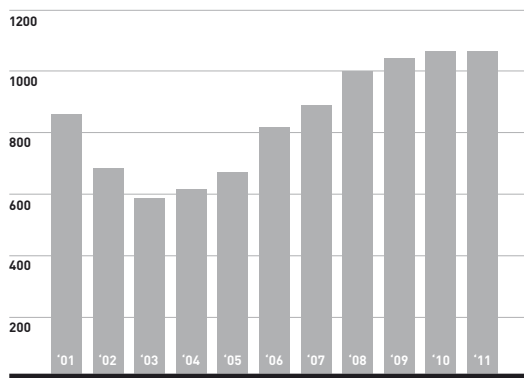
Annual available seat kilometres for world traffic (millions)
Source: IATA

The sector's outlook remains extremely positive. Measured in available seat kilometres (ASK), the International Air Transport Association forecast another rise in global traffic of 5.8% on 2006 levels, defying high oil prices. ASK is regarded as a key proxy of prospects for the volume growth in the aftermarket that accounts for nearly 56% of Meggitt's civil aerospace business.

Airbus and Boeing continue to forecast strong deliveries of original equipment in 2007—900 aircraft—after a 24% increase on deliveries in 2006. These will meet the rise in global air travel levels boosted by rapid growth in India and China; replace ageing fleets; and offset the impact of high oil prices with more efficient aircraft, all of which suggests continued large civil original equipment growth up to 2010. To satisfy demand and meet the ramp-up in production needed over the next few years, Meggitt continues to invest in upgrading and expanding its manufacturing, focusing on service, seeking alternative low-cost procurement sources and actively managing its supply base.

Regional aircraft, business jets and general aviation OE revenues accounted for around 10% of Meggitt's total revenue. The regional jet market is expected to recover from 2007 as products such as the new Chinese and Russian regional jets come to market. The business jet sector is still exhibiting an exciting upward trend with quarterly deliveries at their highest levels over the last two years. This reflects a stronger, international economy, increasing corporate profitability and rising personal wealth. We are also seeing the emergence of an air taxi infrastructure in the United States, with start-up operators establishing themselves in Florida, Texas, California and New England and stimulating the development of new aircraft types, the Light Jet (LJ) and Very Light Jet (VLJ). Meggitt has been a significant player in both programmes from their inception with good positions on aircraft such as the Eclipse 500 and the Embraer Phenom 300.

Overall, the trends in this sector are positive and indicate strong growth in a primary market throughout which we have a balanced and extensive presence in the major civil aircraft categories across OE and the aftermarket.



Forecast large jet deliveries

Source: UBS, Airbus and Boeing



Analysis of civil aerospace

■ Aftermarket **56%**
■ Large jet **22%**
■ Other **22%**



Analysis of military

■ Aftermarket **32%**
■ OEM **68%**

Environmental regulation offers further opportunity. In 2006, seven major European aerospace groups agreed to work together on a "cleaner skies" project involving a joint technology initiative partly funded by the European Commission to reduce the noise, emissions and fuel consumption of next generation aircraft and related components and operations. Meggitt's condition monitoring technology—which now includes Radatec's turbine tip clearance measurement tools—is key to emissions management and the reduction of fuel consumption and will help aircraft manufacturers respond to regulatory requirements globally.

Military

The defence industry is a growing Meggitt market. Our products support key current and future air, land and sea systems including combat aircraft such as the Apache attack helicopter, USAF Raptor, Eurofighter Typhoon and the Joint Strike Fighter; the US Army's Future Combat Systems mounted combat vehicles; and the M1A2 SEP Abrams tank.

The US accounts for almost 50% of the world's global defence budgets. President Bush's budget request for fiscal year 2008 was \$624.6 billion, including \$481.4 billion in discretionary authority for the Department of Defense base budget and \$141.7 billion to support the 'Global War on Terror'. This represents real growth of 8.6% in the base budget over fiscal year 2007 and is the first time an estimate of the cost of the wars in Iraq and Afghanistan has been provided in advance to meet Congress' request to end supplemental funding.

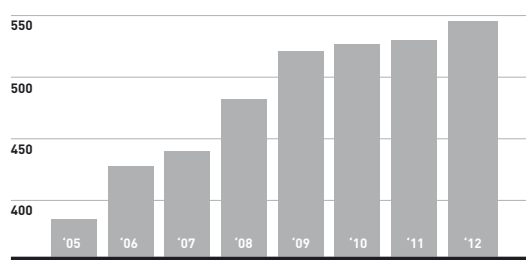
A further \$93.4 billion emergency supplemental was requested to cover equipment reconstitution and the cost of operations for the remainder of fiscal year 2007. This is on top of the \$70 billion already provided for war activities last September, bringing total war funding for the year to \$163.4 billion.

The themes of the fiscal year 2008 budget cover a commitment to military readiness and ground force strength; enhanced combat capabilities and continued development of capabilities to maintain superiority against potential threats. Improvements to joint ground capabilities include the Army's Future Combat System which, with a range of superior technologies including Meggitt's advanced automatic ammunition loading equipment, will continue to modernise and integrate ground forces and increase the effectiveness of the individual soldier. Joint air capabilities will advance with more military fighter jets, sustained Joint Strike Fighter support and enhancements to existing aircraft. Meggitt's products are present across all these classes representing 39% of group revenue from OEM to aftermarket.

As the Department of Defense reconstitutes its forces to maintain a high state of military readiness and restore capability levels, increased Army procurement funding will boost demand for Meggitt's spares and repairs programmes. Meggitt's military aftermarket accounted for 32% of its military revenue in 2006 following the high utilisation rates of equipment in Afghanistan and Iraq such as the AH-64 Apache, F/A-18 Hornet, Abrams tank and Stryker fighting vehicle. Meggitt supports these and other platforms with an extensive range of products, spares, repairs and technical services to ensure continuous operational availability and support the extensive overhaul that follows redeployment.

Beyond active operations, Meggitt is responding to the training requirements of military and government law enforcement organisations reinforcing Homeland Security. In 2006, Meggitt acquired and integrated Firearms Training Services Inc (FATS) into its defence systems business. FATS is regarded as the leading provider of innovative, virtual weapons training services and is expected to play an important role in enhancing training for modern warfare and the continuing Iraq and Afghanistan campaigns.

Market review continued



Projected US defence spending excluding supplementals (\$ billion)

Source: US Department of Defense and management estimates

Combined European defence budgets are expected to remain stable at around 1.8% of GDP compared to a typical 4.0% of US GDP. The focus on progressing major development programmes that include Meggitt product such as Eurofighter Typhoon and the A400M continues. Spending in the UK will continue to respond to ongoing commitments on the international stage and Meggitt is responding to opportunities created by the MoD for new partnership models, supplying more services and products into the MoD's logistics infrastructure as the group's capabilities expand. This was demonstrated in 2006 by a 20-year contract award from QinetiQ for supplying aerial targets to UK Ministry of Defence facilities. This contract is initially valued at more than £50 million and will help cement continued business revenues from the UK armed forces.

Meggitt worldwide

North America remains the largest market by far for military and civil aviation, representing 49% of Meggitt's total revenue. With many facilities in North America, Meggitt can provide our international businesses with ready access to the expanding US market.

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 have enhanced Meggitt's sensing, electronics and ignition capabilities in an important global centre for aircraft manufacturing. They are representing the group's interests with great success to key mainland European customers such as Airbus, Eurocopter, Turbomeca and Hispano Suiza and strengthening access to European defence programmes and EU funding. Our expanding

manufacturing, procurement and aftermarket facilities in Asia continue to capitalise on the region's strong growth in air traffic.

Beyond aerospace and defence

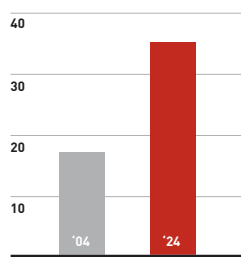
17% of Meggitt's revenue lies in the application of our primary sensing systems and controls technologies to markets beyond aerospace and defence—industrial gas turbine, medical, test engineering and automotive.

Meggitt continues to respond to the demand for vehicle safety testing from the leading automotive companies and dynamic testing for research and development from NASA and the European Space Agency.

Asian automotive markets continue to grow strongly and with it our position sensors business. New product lines are being supported and manufactured in our China facility and we have responded with complete position measurement assemblies to the industry's requirement for more economical fully assembled sub-systems. New safety legislation on pedestrian impact detection and the adoption of safety as a key automotive marketing concept is creating demand for the enhanced data collecting capacity of our new automotive crash sensors family.

The industrial gas turbine market continues to provide growth opportunities for Meggitt's leading condition-based monitoring tools. Our higher temperature tolerant sensors and processing electronics are key to reducing cost and noxious emissions, while optimising efficiency and profit. The power generation industry globally is investing significantly in these areas, especially Asia, the Middle East and Russia. The rising costs of fuel and raw materials continue to drive manufacturing plants in general to improve their operating efficiencies. Meggitt's wireless monitoring systems and increased capacity from our China facility has positioned Meggitt to participate in this high growth area, with design wins for plants as diverse as food products, pulp and paper, steel and electronic materials in 2006.

We continue to invest for the long-term in new sensors for the medical and defence markets from sensors that monitor patients' activity levels to others that monitor battlefield brain impacts. Many projects come with funding from the US government or are conducted with NASA and US universities.



World aircraft fleet ('000)

Source: Boeing Current Market Outlook 2005



Analysis of other markets

■ Aerospace derivatives **58%**
■ Non-aerospace electronics **42%**

Business review

Operating review

Overall performance

	2006	2005 ⁽¹⁾	Increase %
Revenue	£670.3m	£616.3m	9% #
Profit before tax	£130.0m	£87.1m	49%
Earnings per share	22.2p	15.2p	46%
Underlying:			
Operating profit ⁽²⁾	£149.2m	£130.6m	14%
Return on revenue	22.3% #	21.2% #	
Profit before tax ⁽²⁾	£132.7m	£116.3m	14% #
Cash flow from operations ⁽³⁾	£133.8m	£132.8m	1%
Cash conversion ⁽⁴⁾	90% #	102% #	
Earnings per share ⁽²⁾	22.3p	20.0p	12% #

Key performance indicator

- (1) Restated where applicable for the effect of finalising the fair values of prior year acquisitions
- (2) Underlying profit and EPS are used by the board to measure the underlying trading performance of the group and excludes exceptional operating costs, amortisation of intangibles acquired in business combinations, disposal of inventory revalued in business combinations, financial instruments, goodwill adjustments arising from the recognition of tax losses and, where relevant, the tax effect of these adjustments (see notes 10 and 16).
- (3) Cash flow from operations is before exceptional operating costs, interest, tax and investing activities
- (4) Cash conversion is the ratio of cash flow from operations to underlying operating profit

Excellent growth in civil aerospace and continued military demand supplemented by acquisitions have contributed to another outstanding year. Group revenue increased by 9% to £670.3 million (2005: £616.3 million), with civil aerospace increasing by 13%; military increasing by 4% and revenue in other markets increasing by 8%. The group's order book at the end of December was 19% higher than December last year at constant exchange rates.

The group is well balanced between the civil and military markets and between original equipment revenue and the aftermarket. Overall, civil aerospace markets accounted for 44% of group revenue (2005: 43%); military markets 39% (2005: 40%) and the civil and military aftermarket accounting for 38% (2005: 39%).

Underlying operating profit increased by 14% to £149.2 million (2005: £130.6 million). Net interest costs increased by £2.2 million to £16.5 million (2005: £14.3 million) due to higher rates and the

cost of funding acquisitions. This left underlying profit before taxation (PBT) 14% higher at £132.7 million (2005: £116.3 million). The increase included adverse currency movements of £2.0 million and a £0.6 million net benefit from acquisitions. Excluding the impact of currency and acquisitions, like-for-like underlying profit before tax increased by 15%.

Investments

During 2006 Meggitt continued its strategy of making bolt-on acquisitions complementary to its existing businesses. The year's significant acquisition, completed in October 2006, was Firearms Training Systems Inc (FATS) for a cash consideration including costs of £68.3 million. More details of this acquisition are shown on page 11.

We also acquired Keith Products LLP, a vapour cycle equipment manufacturer for a cash consideration including costs of £16.6 million, potentially rising to £17.6 million. Keith Products is a leading supplier of compact air conditioning systems for business jets and general aviation aircraft, which complements our existing range of thermal management products.

Radatec Inc, a microwave-based sensing business, was purchased for a cash consideration including costs of £1.4 million, potentially rising to £5.6 million if certain milestones are met. This is discussed in more detail on page 8.

Owning intellectual property is key to maintaining Meggitt's high returns. Total research and development (R&D) expenditure (including customer funding) increased by £10.3 million (22%) to £57.6 million (2005: £47.3 million), 9% of the group's revenue. Much of this investment is in incremental improvements to product capability but significant developments included condition monitoring on the Airbus A380 and Boeing 787, the launch of a new fuel gauging technology, enhanced networking capabilities for sensors and new sensors aimed at seismic sensing and the assessment of head trauma injuries. In-house developments are complemented by acquiring or licensing technology exemplified by Keith Products, Firearms Training Systems and Radatec in 2006.

Key performance indicator definitions

- 1 Revenue growth** – Percentage change in group revenue from previous financial year
- 2 Underlying PBT growth** – Percentage change in group underlying profit before tax from previous financial year
- 3 Underlying EPS growth** – Percentage change in group underlying earnings per share from previous financial year
- 4 Return on revenue** – Underlying operating profit as a percentage of revenue
- 5 R&D as % of revenue** – Research and development expenditure as a percentage of revenue
- 6 Cash conversion** – Cash inflow from operations before exceptional operating costs as a percentage of underlying operating profit

Operating review continued

Meggitt-funded research and development (R&D) increased by 22% from £30.8 million to £37.5 million, of which £14.5 million (2005: £8.0 million) was capitalised. R&D expenditure as a percentage of revenue (one of our key performance indicators) was 5.6% (2005: 5.0%). R&D costs charged to the profit and loss account increased by 9%, in line with revenue, to £26.0 million (2005: £23.8 million). Customer-funded R & D increased to £20.1 million (2005: £16.5 million).

Analysis of R&D costs

£million	Group	Aerospace Equipment	Sensing Systems	Defence Systems
R&D expenditure	37.5	14.2	20.7	2.6
% of revenue #	5.6%	4.0%	9.5%	2.7%
Capitalised	(14.5)	(4.9)	(9.6)	-
Amortisation	3.0	1.0	2.0	-
P&L charge	26.0	10.3	13.1	2.6

Key performance indicator

Note: Meggitt invests proportionately more in sensing systems, particularly condition monitoring. In future, R&D in this segment is expected to grow faster than the group average.

The group made significant investment in expanding, consolidating and relocating manufacturing facilities in 2006, which drove increased capital expenditure of £31.4 million (2005: £16.2 million).

Businesses have relocated to new premises—including Vibro-Meter Inc in New Hampshire, USA, Meggitt Defence Systems, Ashford, UK and Meggitt Thermal Systems, Dunstable, UK (formerly Avica). A number of site consolidations have taken place with Meggitt Aerodynamics moving into Whittaker Controls' facility in Los Angeles and the UK polymers factory in Shephed expanding to accommodate the nearby Bagworth facility.

The co-location of three of our Defence Systems businesses in California will be completed in the second quarter of 2007 and the expansion of our Swiss condition monitoring and UK heat exchanger facilities will be completed in the first quarter. Capital expenditure is expected to be at a similar or slightly higher level in 2007 as a result, before dropping back in 2008.

Segmental performance

Aerospace Equipment

(53% of group revenue)

	2006	2005
Revenue	£356.6m	£328.6m
Underlying:		
Operating profit	£92.3m	£83.4m
Return on revenue	25.9%	25.4%

- Revenue increased 9% to £356.6m (2005: £328.6 million). At constant exchange rates this is a 10% increase.
- Underlying operating profit increased 11% to £92.3 million (2005: £83.4 million). At constant exchange rates the increase was 13%.

Aerospace Equipment produces mainly mechanical components and sub-systems for aero-engines and landing systems but has a growing capability on land and sea platforms. Its products are spread across a number of civil and military programmes, and because the equipment works in critical applications in harsh environments, a significant proportion of its revenue is generated from a growing and highly profitable aftermarket.

During the year the order book continued to grow with numerous new programme awards.

These included the contract to supply the main and nose wheels, brakes and brake-by-wire control system for Embraer's Phenom 300 light jet which should enter service in 2009. This contract is expected to be worth \$100 million over the life of the programme. Our braking business also continued to advance its technology base by demonstrating successfully its advanced electric braking systems, Ebrake™, which it flew on the Barracuda unmanned air technology demonstrator late last year.

Meggitt was chosen by GE Aviation to supply bleed bias venturi flow sensors for the GENx engine which is to be used on the Boeing 787 and Boeing 747 aircraft; the air/oil separator for the Trent 1000 under a contract with Hamilton Sundstrand; inlet anti ice system integration for the Embraer Phenom 100 very light jet; environmental control system valves for the US Navy's

new Boeing 737 multi-mission maritime aircraft (MMA); and motor-operated hydraulic environmental control system valves that will be installed on the Boeing 757 aircraft passenger-to-cargo conversion.

Boeing will incorporate Meggitt's new generation smoke detection and sensor system in its new 777 large aircraft and Federal Express will use our fire detection control unit as an integral part of its programme to upgrade fire detection performance on several of its aircraft models.

In line with the group's strategy and to satisfy our customers' demands for high quality products delivered on time and at a competitive cost, Meggitt has continued to invest in its facilities. Aerospace Equipment's California-based manufacturing facility, Meggitt Airdynamics has been consolidated with the Whittaker Controls facility, also in California USA. The UK polymers factory has been upgraded and extended to enable the consolidation and closure of the nearby facility at Bagworth. This move should be completed in the first half of 2007. To address an increasing order book, the facility at Heatric is being expanded by 3,350 square metres.

Sensing Systems

(33% of group revenue)

	2006	2005
Revenue	£218.9m	£201.7m
Underlying:		
Operating profit	£39.8m	£32.5m
Return on revenue	18.2%	16.1%

- Revenue increased 9% to £218.9 million (2005: £201.7 million). At constant exchange rates this is a 10% increase.
- Underlying operating profit increased 22% to £39.8 million (2005: £32.5 million). At constant exchange rates the increase was 23%.

Meggitt Sensing Systems' businesses provide industrial position sensors, avionics and an extensive range of high value sensors and related electronics used primarily in monitoring the condition of aircraft, marine and industrial power generation turbines.

We have a long pedigree in the condition-monitoring market which has created an excellent market position for our businesses. We have applications on virtually every western aircraft and have the leading position in engine vibration monitoring and condition-based maintenance on large civil aircraft engines where sensors and electronics are combined to provide essential operating and maintenance information. Meggitt is the only company with a demonstrated on-engine monitoring capability. Our sensors are also used in a wide variety of other applications such as test and measurement, medical, automotive and industrial.

Major contracts on which the group has continued to work during 2006 include engine condition monitoring units (EMUs) for the GENx, GP7200 and Trent 900 and 1000 engines for the Boeing 787. The EMUs for the GP7200 and Trent 900 engines for the Airbus A380 aircraft are in production. These projects are progressing as expected and the outlook for the product on the Boeing 787 aircraft looks very encouraging. The delays in the Airbus A380 programme, whilst disappointing, will have only a minor impact on the group's results.

In line with our strategy of introducing products with significant levels of intellectual property, we have developed a new technology for use in aircraft fuel gauging systems. We are currently working with our launch customer to progress this innovative technology through qualification and certification phases to support deliveries for production aircraft commencing in Q4 2007. This programme is anticipated to yield \$30 million in revenues throughout the product life. Following certification, this technology will be applicable to numerous other platforms and applications.

Although at an earlier stage of development, progress has continued on our network sensing technology for use in next generation flight tests and we are developing exciting new applications involving seismic sensing. Further investment in our silicon micro-electromechanical systems facility is delivering benefits with new designs including high shock sensors for weapons fusing applications, new devices for implantable medical applications, next generation crash and crush sensors for automotive and aerospace safety testing and sensors which measure head trauma.

Operating review
continued

During the year Vibro-Meter Inc in New Hampshire, USA, Vibro-Meter UK in Basingstoke, UK and Wilcoxon in Maryland, USA relocated to new facilities. Expansion of the Vibro-Meter SA facility in Switzerland has started with completion expected in the second half of 2007. The manufacturing facility in Xiamen, China has also been expanded to cope with increased levels of activity as Meggitt businesses expand their use of this lower cost manufacturing facility.

Defence Systems

(14% of group revenue)

	2006	2005
Revenue	£94.8m	£86.0m
Underlying:		
Operating profit	£17.1m	£14.7m
Return on revenue	18.0%	17.1%

- Revenue increased 10% to £94.8 million (2005: £86.0m). At constant exchange rates, this is a 13% increase.
- Underlying operating profit increased by 16% to £17.1 million (2005: £14.7 million). At constant exchange rates the increase was 20%.

With the acquisition of Firearms Training Systems, Defence Systems now has a leading position in ground live fire and virtual training and is well-placed to address modern requirements for current conflicts and subsequent retraining. In addition, we have attractive opportunities in aerial training and combat support such as ammunition handling and environmental control systems.

The year's major contracts included an award from QinetiQ for the UK Ministry of Defence's Combined Aerial Targets System (CATS) programme in December 2006 for our aerial targets and scoring systems. The programme is worth £50 million to Meggitt and will run for 20 years. £7 million worth of orders for aerial targets for Kuwait, Germany, Finland, France, Norway and Spain were also generated.

Meggitt's environmental control systems have had a strong start to 2007 having been awarded a research contract from Boeing to develop a cooling solution for the F-15E's Radar Modernisation Programme. Production contracts could total \$7 million, with systems delivered between 2008 and 2010.

This programme demonstrates Defence Systems' leading position in electronics cooling for military applications and leverages our secured technology position for future contracts.

The US Army continues to upgrade the existing fleet of Abrams to the M1A2SEP configuration. As a result, General Dynamics recently awarded a \$16 million contract to Defence Systems to provide 186 new thermal management systems (TMSs) following on from more than 900 such systems delivered over the last six years. This new batch will begin delivery in early 2008, dovetailing neatly into existing production deliveries. Defence Systems will start to see significant US Army reset contracts to refurbish the Abrams TMSs that have seen extended combat duty in Iraq. Development work is also underway on enhanced cooling solutions for the new electronics to be integrated into the next generation battle tank, the M1AX.

Meggitt has been awarded a \$3 million contract by the United States Marine Corps to develop a new ammunition-handling system for the AH-1W/Z Super Cobra attack helicopter. Subsequent production contracts are expected to yield more than \$20 million in revenue, beginning in 2009. The development of the 120 mm autoloader system for the Future Combat Systems Mounted Combat System variant has continued in a contract valued at more than \$44 million.

Defence Systems has also been awarded three classified countermeasures programmes with the US Air Force. These planned programmes, valued at more than \$78 million over their lifetimes, run through 2012 and leverage Defence Systems' technology and expertise in protecting military aircraft.

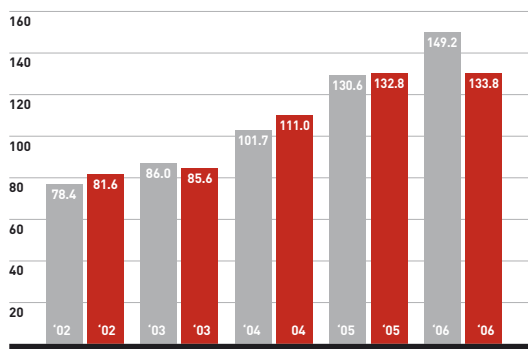
Work has continued on the co-location of the three Californian Defence Systems businesses onto one site and this should be completed early in the second quarter of 2007. The UK facility in Ashford, Kent has been moved to a new site and plans are underway to move the FATS UK facility to this site. In 2007, we will start to transfer the activities of Caswell, which makes ground targets in Minneapolis, Minnesota, to the FATS facility in Atlanta, Georgia. This move should be completed in the first half of 2008 costing £3.2 million and is being treated as an operating exceptional cost (2006 £1.5 million; 2007 £1.7 million).

Business review

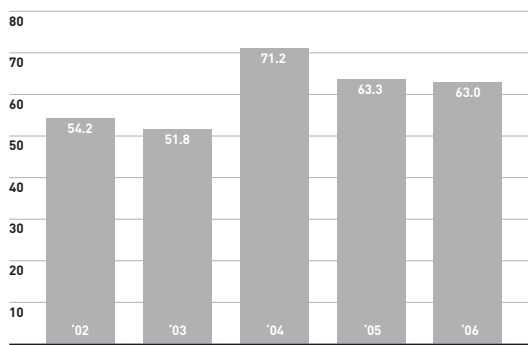
Financial review

Cash flow

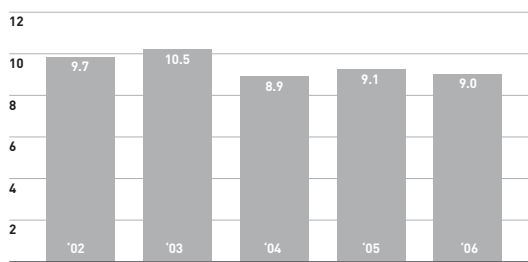
Meggitt continued its track record of excellent cash generation with cash inflow from operations before exceptional operating costs of £133.8 million (2005: £132.8 million) representing 90% conversion of operating profit to cash. Interest cover (based on underlying operating profit) was 9.0 times (2005: 9.1 times) and gearing remained at 63% at the end of December 2006, the same as the previous year end.



Underlying profit and cash flow from operations (£m)
 ■ Underlying operating profit ■ Operating cash flow



Gearing (%)



Interest cover based on underlying operating profit

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 the high levels of gearing. Our current post-tax average cost of capital is approximately 7.5% per annum.

Net borrowings have increased from £314 million at December 2005 to £354 million with the £81.6 million spent on acquisitions partially offset by £23 million net cash generated as well as exchange rate movements. 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 was 8.4 times (covenant greater than 3.5). Net debt to EBITDA was 2.1 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 £110 million. The weighted average maturity profile of our committed facilities was 4.6 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 2006, the percentage of net debt at fixed rates was 28% and the weighted average period was 7.2 years. Both exceed our treasury policy minimum criteria of 25% and two years respectively.

Current profile of net debt (£m)

	2006	2005
Sterling	13.6	(7.7)
US Dollar	298.6	272.0
Euro	10.3	13.5
Swiss Franc	29.1	34.0
Other	2.1	2.5
Total net debt	353.7	314.3

Financial review
continued

Exchange rates

The results of overseas operations are translated into sterling at weighted average exchange rates. Net assets are translated at year-end rates. The major exchange rates used were as follows:

Translation

	2006	2005
Average rates:		
US Dollar	1.86	1.81
Euro	1.47	1.46
Year end rates		
US Dollar	1.96	1.72
Euro	1.48	1.46

Our policy on transactional currency exposure is to hedge known, and some anticipated, exposures based on historical experience and projections. Meggitt generally hedges at least 70% of the next 12 months' anticipated exposure and can hedge up to five years ahead. Current hedging is around 11 months' cover. After taking into account our hedging programme on our net transactional exposure (currency revenue less currency costs), the effect on our results for 2006 versus 2005 was negligible. The effective average rates were:

Transaction

	2006	2005
US Dollar/£	1.79	1.77
US Dollar/Euro	1.24	1.25
Swiss Franc/US Dollar	1.24	1.19

Taxation

The group's underlying tax rate increased, as expected, to 27%, up from 26% in 2005. The tax rate has increased due to the prior year utilisation of tax losses and the profile of profit by jurisdiction. The tax rate is expected to remain at this level until 2008, when it is expected to increase to 28%.

Dividends

Meggitt's policy is to increase dividends in line with underlying earnings. The board is proposing an increase in the final dividend by 13% to 6.0 pence

(2005: 5.3 pence), bringing the full year dividend to 8.6 pence (2005: 7.7 pence), an increase of 12%.

Pension plans

The group has four defined benefit schemes, three in the UK and one in the USA. All of these schemes are closed to new members. A summary of the position of the schemes is shown below:

	2006	2005
Schemes' assets	£369.3m	£349.1m
Schemes' liabilities	£466.5m	£447.3m
Schemes' deficits	£97.2m	£98.2m
Funding status		
UK schemes	80%	79%
US schemes	77%	76%

Group contributions to funded pension plans were £10.1 million (2005: £10.1 million).

During the year, the value of the assets in the schemes increased by £20.2 million driven by strong equity returns. However, this increase was almost entirely offset by a £19.2 million increase in the value of liabilities. One of the key drivers for the increase in liabilities was the movement in assumptions on discount rates and inflation. A higher discount rate generates a lower liabilities figure but conversely a higher inflation rate generates a higher liabilities figure. During the year, although the discount rate increased by 20 basis points, the inflation rate assumption increased by 30 basis points, resulting in a net increase in liabilities. Further details can be found in note 34 to the accounts.

Accounting standards

There have been no significant changes to accounting and financial reporting standards in 2006 and no impact on group profit for the year. This is the second year that Meggitt has reported under International Financial Reporting Standards (IFRS). As required by IFRS, the formal valuation of goodwill and intangibles relating to our 2005 acquisitions was completed in 2006 and is reflected in restated 2005 numbers. The adjustments were minor and did not affect underlying profit.

Risks and uncertainties

Meggitt operates globally, principally in the aerospace and defence markets. There are a number of potential risks and uncertainties which could have a material impact on the group's long term performance and cause actual results to differ materially from expected and historic performance. Meggitt has a risk management programme to identify risks, assess their impact and likely occurrence and prepare mitigation plans to manage those risks. We seek to mitigate exposure to all forms of risk and, where possible and cost-effective, transfer risk to insurers.

External risks

Political and natural catastrophe

Meggitt operates mainly in North America and Europe and is exposed to political risk, possible terrorist action and natural catastrophe. Any political and terrorist risks can have both an adverse and beneficial effect on the group's aerospace and defence revenue and we try to retain a balance between the two market sectors to minimise the overall effect. As a number of our businesses are based in Southern California, there is exposure to the risk of earthquake damage. Where cost-effective, such risks are mitigated, through physical measures and insurance.

Competitors

Meggitt operates in highly competitive markets and is exposed to the risk of customer concentration particularly in the aerospace industry. We seek to protect our position by developing proprietary products in markets which have a high barrier to entry and through strong, long-term relationships with our customers. The diversity of our products and operations also reduces the possible effect of action by any single competitor or customer.

Legal and regulatory

Meggitt is subject to the laws and regulations of the geographic locations in which it operates. Failure to comply with these could result in criminal, civil or administrative penalties. Further, the aerospace industry is highly regulated and many of the group's products are required to be certified or accepted by various regulatory authorities including the US Federal Aviation Administration, similar agencies in other countries and individual original equipment manufacturers. Systems and processes are in place to ensure compliance with the relevant regulations

and approvals and these are regularly reviewed by the relevant authorities.

A number of legal liability risks, such as to employees, third parties and properties, are insured subject to policy limits and conditions. However, because of the long history of some of the companies within the group, there is a risk of liability claims which may not be fully covered by insurance.

Meggitt is subject to litigation from time to time in the ordinary course of business and makes provision for any expected cost to the group. However, there is a risk that successful claims or costs may exceed the provisions made. In particular, a number of claims are received each year by subsidiary companies relating to the sale of asbestos products by businesses which have been either sold or discontinued. The total amount concerned in any year is not material and many claims are covered fully or partly by existing insurance. There is a provision for claims which cannot be recovered from insurers.

The group is subject to the export control regulations of the countries in which it operates. Those of the USA are particularly complex and detailed and there is a system of voluntary disclosure to the relevant authorities to deal with the occasional breach. Any reported breach, as well as those which are not reported, may be investigated and, depending upon its seriousness, may result in criminal, civil or administrative penalties or, as in most cases, no further action being taken. The group has implemented a best practice export compliance programme to minimise the risk of violating the export regulations of all the countries in which it operates.

Environmental

The group's business operations and facilities are subject to laws and regulations that govern the discharge of pollutants and hazardous substances as well as the handling, storage and disposal of such materials and other environmental matters. In the USA, the group has an obligation to remediate certain sites which were once occupied by businesses owned by Whittaker Corporation and which were sold or discontinued before Meggitt's acquisition of Whittaker in 1999. Occasionally, claims are also received from third parties in relation to damage caused by the contamination at or emanating from these sites.

Risks and uncertainties continued

The group has various insurance policies available to it to respond to these remediation obligations and third party claims. Provision is made in the accounts for the forecast cost of any remediation and settlement of third party claims and for the contribution expected to be recovered from insurers. Environmental insurance is purchased for all new sites acquired by the group.

Equipment fault

Equipment manufactured by Meggitt generally operates in extreme environments and manufacturing processes are in place to ensure quality and reliability standards conform to the stringent requirements of the markets we operate in. These processes mitigate the risk of failure of any of our products in its operating environment. Liability insurance is taken out to protect the group from any future product liability claims.

Fixed price contracts

The group has entered into some multi-year, fixed price contracts with some OE manufacturing customers and is exposed to the upside and downside resulting from any changes in the cost of making these products. Risk is minimised wherever possible and in most cases estimates of cost are based on reliable historic data.

Foreign exchange

As a multinational group with significant revenue overseas we are exposed to currency risk; transaction risk relating to revenues made in currencies other than where the goods are manufactured; and translation risk relating to the translation of the results of non-UK companies into sterling values. The management of these risks is discussed in more detail in the Financial Review section of this report but, generally, transaction risk is hedged in the short term but remains exposed to the long term risk of exchange rate fluctuations. Some mitigation is achieved by sourcing goods, services and borrowings in currencies which match the exposure.

Credit risk

Credit risks exist in relation to customers, banks and insurers. Established credit control procedures are in place to manage customer risk where exposure to known risks (e.g. US airlines) are carefully controlled and monitored. Meggitt has a wide customer base and

is not over-reliant on a single customer. Relationships with bankers are closely monitored by the centralised treasury function. Insurance risk is minimised by choosing insurers of good standing.

Pension funding

Details of the group pension schemes are shown in note 34 to the accounts and a summary of funding is shown in the financial review. We are exposed to various funding risks such as poor investment performance and improved mortality of members.

Internal risks

Manufacturing

The group's manufacturing facilities could be disrupted for reasons beyond our control such as fire, industrial disputes or other issues. Recovery plans are in place for all locations so that any disruption is minimised and business continuity is achieved as quickly as possible. In addition, business interruption insurance is in place to minimise the cost of disruption to the group.

Intellectual property

Meggitt, where possible, seeks to protect its proprietary position through patents and long term relationships with its customers. In some cases, new technology risk exists when contracts are undertaken for technology which has not been finally developed and we are exposed to cost overruns and other uncertainties.

Acquisitions

Meggitt has grown by acquisition and there are risks involved in acquiring any new business. Risks are mitigated by due diligence, business integration processes and, where practicable, by representations, warranties and indemnities supplied by the vendors.

Internal controls

Meggitt operates internal controls as detailed in the Corporate Governance section of this report. Failures in these controls might have a material impact on the group. The group's internal audit department visits operating companies to an agreed plan, reports to the Audit Committee on any deficiencies uncovered and follows up agreed action plans to remedy deficiencies.

Corporate responsibility

Meggitt PLC recognises its responsibility to its shareholders, employees, customers, suppliers and the wider community and, in January 2007, its main board approved the adoption of a corporate responsibility (CR) policy. This sets out the values underpinning the way we manage social, ethical and environmental issues (see www.meggitt.com)

Meggitt's CR policy

Meggitt is committed to:

- upholding sound corporate governance principles;
- providing a supportive, rewarding and safe work environment;
- conducting business relationships in an ethical manner;
- supporting communities in which we operate;
- minimising the impact of products and processes on the surrounding environment;
- encouraging our contractors and suppliers to adopt and implement these principles; and
- acting as a responsible supplier to support our customers.

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.

Measurement

In 2006, our businesses reported for the first time on a number of CR metrics so that we can measure our performance as responsible corporate citizens, benchmark ourselves against peers and competitors and identify areas for improvement. Fig 1 (opposite) comprises a selection of the CR metrics collected. These and other measurements are available at www.meggitt.com, covering areas such as employee retention and ISO14001 certification.

Fig 1 Measurement

Electricity consumption – kWh	82,745,151
kWh/£1,000 revenue	122.75
Carbon dioxide emitted – tonnes	56,995
tonnes/£1,000 revenue	0.08
Volatile organic compounds emitted – tonnes	59.95
tonnes/£1,000 revenue	0.00009
Water consumption – m ³	395,638
m ³ /£1,000 revenue	0.59
Non-hazardous waste generated – tonnes	2,607
tonnes/£1,000 revenue	0.004
Non-hazardous waste recycled (%)	32.11
Hazardous waste generated – tonnes	421
tonnes/£1,000 revenue	0.0006
Accident incident rate – number of accidents per 100,000 employees	2,669.18
Average training – hours per employee	26.27

CR responsibility

The board delegates responsibility for overseeing CR to the Group Corporate Affairs Director. Managing directors, presidents and general managers are responsible for implementing local CR activities.

Governance and compliance

Meggitt has always conducted its business based on sound principles of corporate governance as set out in the Directors' Statement (page 36). Its profits are 'real'. The group's cash inflow from operating activities in 2006 continues to show Meggitt's ability to convert a very high percentage of operating profit.

Business continuity

In 2006, 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. Five Meggitt sites implemented business continuity plans for the first time and 24 developed and enhanced existing plans.

Corporate responsibility
continued

Environment, health and safety

As a manufacturer, health, safety and environmental issues are a CR cornerstone. In 2006, Meggitt continued its commitment to the Sustainable Aviation Strategy of the Society of British Aerospace Companies (SBAC) where progress has been made on climate change, local environmental impacts and governance and communications (see 2006's report at www.sustainableaviation.co.uk).

We also launched an environmental, health and safety council so our UK businesses can share experience, information, training, education and resources and reduce the cost of investigating and complying with new legislation and developing new processes and systems.

Over two thirds of Meggitt's sites are ISO14001 certified, with others making progress towards achieving this environmental management accreditation. Minimising the environmental impact of operations continues with a programme of independent audits. Ten Meggitt sites were audited in 2006. We regularly track progress on actions identified following environmental audits. Meggitt's environmental policy was updated and approved by the main board in December 2006 and is published on our website.

We promote the health, safety and welfare of our employees and site visitors with safety training and protective equipment. In 2006, we continued to roll out the group's health and safety audit programme. A further ten Meggitt sites were audited in 2006, with three sites receiving a follow-up visit from their 2005 audit. We regularly track progress on action points arising from health and safety audits.

Customers and suppliers

Supplying 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.

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 and drive progress. We are firmly committed to integrity and honesty in all our relationships with stakeholders and expect the highest standards of ethical behaviour from our employees and representatives.

During 2006, nearly all Meggitt's 6,400 employees undertook training in Meggitt's Code of Conduct and, to keep awareness high, we launched a series of five-minute videos called 'Ethical Moments'. This will run throughout 2007 highlighting various ethical issues, supplemented by material, resources and policy development.

Working at Meggitt

Our international business has a diverse workforce which enjoys equal opportunity employment policies and access to educational opportunities such as apprenticeships, MBAs, graduate courses and leadership development programmes.

Local communities

We make an important economic contribution to local communities. Salaries, tax and social security contributions across the group amounted to £250 million in 2006 (around 37% of revenue) and there are many examples of donations, sponsorship and employees' time provided to local organisations.

The future

Meggitt will continue to develop and implement CR 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, legal 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.

Corporate responsibility in action

Environment, health and safety	<p>The group received a special commendation for the "Best Commitment to Environmental and Social Responsibility" in the UK's South West Financial and Corporate Communications Awards 2006.</p> <p>Dunlop Aerospace Braking Systems' environmental action improved business efficiency and financial returns when they renewed lagging on steam pipelines at a cost of £134,000 but an annual saving of £75,000. Better boiler control maximised the re-use of waste process gas and minimised the number of boilers needed, saving £68,000 per annum. Piher NACESA, Spain reduced wastewater to zero after installing an evaporator system. Dunlop Bestobell, UK</p>	<p>saw its air pollution reduce by operating a catalytic emission control unit, destroying over 90 per cent of volatile organic compounds emitted.</p> <p>During 2006, many Meggitt businesses worked towards environmental impact reduction. Serck Aviation, UK implemented a recycling programme for paper and cardboard that significantly reduced the amount of general non-hazardous waste disposed to landfill. Meggitt Xiamen Sensors & Controls, China reduced electricity usage by 16.7 per cent during 2006, saving 96,503 kWh. Meggitt Safety Systems, US replaced the solvents dichloromethane and isopropyl alcohol with more environmentally-friendly materials.</p>
Customers and suppliers	<p>Vibro-Meter Inc and Whittaker Controls received Gold and Silver Medallist Awards respectively in June 2006 from the Defense Logistics Agency's Defense Supply Centre in Richmond, Virginia for value, quality and delivery.</p>	<p>Vibro-Meter, Switzerland was commended by the Executive Vice President of Airbus Customer Services for having "exceptional customer support" and for being "consistently one of the Top 10 achievers in the Airbus supplier support ratings of 2001 to 2005."</p>
Ethical business	<p>Meggitt sponsored California's Loyola Marymount University's intercollegiate business ethics competition in which student teams present complex business cases to judges who are business leaders. 23 universities participated in 2006.</p>	<p>Meggitt participates in the informal UK Defence Industry Anti-Corruption Forum, supported by the SBAC and the Defence Manufacturers' Association.</p>
Working at Meggitt	<p>Meggitt Xiamen Sensors & Controls, China has been certified as a Xiamen "Excellent Employer" based on excellent performance in labour law compliance, people and operations management and recommendations by employees, votes from citizens and audits by experts.</p>	<p>Dunlop Aerospace Braking Systems, Coventry was named one of the best training providers in the UK by the Adult Learning Inspectorate.</p>
Local communities	<p>In 2006, Meggitt PLC created The Meggitt Fund, a grant for the Community Foundation for Bournemouth, Poole and Dorset which supports community initiatives such as the Butchers Coppice charity, which enables disadvantaged young people to pursue a range of outdoor activities.</p>	<p>Dunlop Aerospace Braking Systems has joined the Warwickshire Wildlife Trust, a local organisation dedicated to preserving local wildlife.</p>

Board of directors



Sir Colin Terry KBE CB FREng (63)

Group Managing Director, Non-Executive Chairman +

Sir Colin was appointed to the Board in February 2003 becoming Non-Executive Chairman on 1 July, 2004. He spent 37 years in the Royal Air Force where he reached the rank of Air Marshal and held the positions of Chief Engineer and Head of Logistics. Following his retirement from the RAF in 1999, Sir Colin served for two years as Group Managing Director of Inflight Engineering Services Limited and for three years as Chairman of the Engineering Council (UK). Sir Colin was President of the Royal Aeronautical Society until May 2006 and in December 2006 was elected President of the Council of European Aerospace Societies. He is a Chartered Engineer.



Philip Green (50)

Group Corporate Affairs Director

Philip joined Meggitt in 1994 and was appointed to the Board in January 2001. During 2006, in view of his increased responsibilities as a main board director and in accordance with corporate governance best practice, Philip relinquished the office of company secretary, remaining as executive director responsible for legal and compliance matters. He is a Fellow of the Institute of Chartered Secretaries and Administrators. Philip was previously at British Aerospace.



Terry Twigger (57)

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.



Stephen Young (51)

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.

Membership of committees

- * Audit
- + Nominations
- Ø Remuneration



Sir Alan Cox CBE (70)

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 is Chairman of The Mountview Academy of Performing Arts and director and Chairman of Henry Ivy Associates Limited. A member of the Financial Reporting Council from 1995 to 1999, Sir Alan is a Chartered Accountant and Chartered Management Accountant.



David Williams (61)

Non-Executive Director * + Ø

David was appointed to the Board on 13 December 2006. He has held a number of senior financial positions and in 1991 joined distribution and outsourcing group Bunzl plc, as Finance Director where he worked until retirement in January 2006. Until recently, he was a non-executive director and Chairman of the Audit Committee of P&O. He is currently serving as senior non-executive director at George Wimpey Plc and non-executive director at Tullow Oil plc. David is a Chartered Accountant.



Peter Hill (54)

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.



David Robins (57)

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 which he spent 18 years at Phillips & Drew and UBS, becoming Executive Vice President and Regional Head of UBS Europe. He is Chairman of LCH.Clearnet Ltd, Henderson TR Pacific Investment Trust PLC and Oriel Securities Ltd and a director of MPC Investors Ltd, two venture capital-backed companies and chairman of three charities.



Financial statements 2006

Report of the directors

The directors submit their annual report and the audited financial statements for the year ended 31 December 2006. The Group financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRSs), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under 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 Business Review on pages 16 to 26.

Group results

Profit before taxation amounted to £130.0 million (2005: £87.1 million as restated). The profit attributable to ordinary shareholders amounted to £96.5 million (2005: £65.5 million as restated) which after dividends of £34.3 million (2005: £31.0 million) resulted in a retained profit for the financial year of £62.2 million (2005: £34.5 million as restated).

Dividends

The directors recommend the payment of a final dividend of 6.00p net per ordinary 5p share (2005: 5.30p) to be paid on 6 July 2007 to those members on the register at close of business on 16 March 2007.

An interim dividend of 2.60p (2005: 2.40p) was paid on 1 December 2006. If the final dividend recommended is approved the total ordinary dividend for the year will amount to 8.60p net per share (2005: 7.70p). 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 2006 the Company made available the Meggitt PLC share dividend plan in respect of the dividends paid in July 2006 (being the final dividend for 2005) and in December 2006 (being the interim dividend for 2006).

The amount of dividend necessary to give an entitlement to one new ordinary share was fixed at 345.45p and 324.80p respectively.

The opening value in respect of each dividend is the market value of one new share on the dividend payment date. The opening values for the dividends paid in July and December 2006 were 311.00p and 293.25p respectively. In each case, as 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%, HM Revenue & Customs will not seek to substitute the opening value for that amount.

Acquisitions and disposals

On 22 August 2006, Meggitt completed the acquisition of Radatec, Inc for a cash consideration including costs of £1.4 million with an additional £4.2 million potentially payable subject to meeting agreed milestones.

On 12 September 2006, Meggitt completed the acquisition of Keith Products LLP for a cash consideration including costs of £16.6 million with a further £1.0 million payable after two years subject to the achievement of certain performance targets.

On 19 October 2006, Meggitt completed the acquisition of Firearms Training Systems, Inc. for a cash consideration including costs of £68.3 million.

Post balance sheet events

The Group announced on 6 March 2007 the proposed acquisition of K&F Industries Holdings, Inc. for a total cash consideration of \$1.8 billion. K&F Industries Holdings, Inc. is a leading provider of wheels and brakes for commercial aircraft, general aviation and military aircraft and a key supplier of engineered fabrics to the US Department of Defense. The main operations of K&F Industries Holdings, Inc. are located in Akron, Ohio, Danville, Kentucky and Rockmart, Georgia. The acquisition is to be financed by a combination of a rights issue and debt. New shares will be issued at 200 pence per share by way of a 1 for 2 rights issue. The terms of the new credit facility have been agreed.

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 77. A further 259,692 ordinary shares have been issued between 31 December 2006 and 26 February 2007 as a result of the exercise of share options.

Share Incentive Plan

The Trustee of the Share Incentive Plan has been allocated £0.7 million from the 2006 profits to acquire ordinary shares in Meggitt PLC for eligible employees (2005: £0.6 million).

Directors and their interests

The directors who served during the year were: Sir Colin Terry, Mr T Twigger, Sir Alan Cox, Mr P E Green, Mr P J Hill, Mr D A Robins, Mr D M Williams and Mr S G Young.

In accordance with Article 75 of the Company's Articles of Association, Mr P E Green, Mr P J Hill and Mr S G Young retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for re-election. Sir Alan Cox, by reason of his having reached the age of 70, in accordance with Article 79 of the Company's Articles of Association retires at the forthcoming Annual General Meeting and being eligible offers himself for re-election. In addition, Mr D M Williams was appointed as a director of the Company on 13 December 2006 and in accordance with Article 71 of the Company's Articles of Association retires at the forthcoming Annual General Meeting and being eligible offers himself for election.

Details of directors' contracts and their interests in the ordinary shares of the Company are as shown in the Remuneration Report on pages 42 to 45. 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. The indemnity provisions in the Articles of Association were amended at the Annual General Meeting of the Company held on 11 May 2006 to take advantage of changes in legislation allowing companies to grant wider indemnities than previously permitted.

Report of the directors *continued*

Substantial shareholdings

As at 19 January 2007 the Company had been notified as required by the Companies Act 1985 that the following had 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	33,816,184	7.75%
Resolution Asset Management	24,116,239	5.53%
Prudential plc	21,939,158	5.03%
Deutsche Bank AG	18,685,785	4.28%
Legal & General Group plc	16,600,424	3.81%

On 20 January 2007 the Companies Act 1985 provisions in respect of substantial shareholdings were repealed and the Disclosure and Transparency Rules of the FSA came into force. As at 26 February 2007, the Company had received notifications that the holdings exceeding the 3% notification threshold were as follows:

	Voting rights	Percentage of total voting rights attaching to the issued ordinary share capital of the Company
Prudential plc	41,832,185	9.59
Schroders plc	27,486,291	6.30
Legal & General Assurance (Pension Management) Limited	13,130,369	3.01

Under the applicable transitional provisions, shareholders have until 20 March 2007 to notify the Company of holdings exceeding the 3% notification threshold under the new regime. The list above may therefore be incomplete as at 26 February 2007.

Corporate responsibility

The Board takes regular account of the significance of social, environmental and ethical matters and a report can be found on pages 27 to 29. The following specific matters fall under the broad definition of Corporate Responsibility:

Community relations and charitable donations

Charitable donations made during the year ended 31 December 2006 amounted to £0.1 million (2005: £0.1 million). In addition, Meggitt PLC gave financial assistance to local organisations amounting to £10,000 (2005: £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 Group. 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, the Sharesave Scheme, the Executive Share Option Scheme 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 1,930 UK employees will hold shares in the Company. The number of employees contributing to the Sharesave Scheme at 31 December 2006 was 982.

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 2006 were 30 days (2005: 19 days). Group creditor days at 31 December 2006 were 70 days (2005: 77 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 can result in a different 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 2006 were 70 days (2005: 75 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

The Group has an Ethics and Business Conduct Policy and a Code of Conduct. All employees have received a copy of the Code of Conduct and follow up training. In September 2006, to keep awareness high, a series of five minute videos was launched called 'ethical moments', which will run throughout 2007 highlighting various elements of the ethics programme. In addition to the training, resource materials have been developed for use by the ethics co-ordinators who are based within each business, and sub-policies are also in the process of being developed. Ethics and business conduct is reviewed regularly by a Committee of the Board.

Report of the directors continued

Political contributions

In accordance with the Group's policy, no contributions were made to political parties or political organisations (2005: £Nil) and no EU political expenditure exceeding £200 was incurred in the year by the Company or any of its subsidiaries.

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 2006 on research and development amounted to £37.5 million (2005: £30.8 million), of which £14.5 million (2005: £8.0 million) was capitalised in accordance with the Group's accounting policy (see note 2 of the Group's 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 26 April 2007, 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 (as amended by the Electoral Administration Act 2006), 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, and (iv) to amend Article 133 of the Company's Articles of Association to reflect the new legislation regarding electronic communications with shareholders.

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.

Disclosure of information to auditors

As at the date of this report, as far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that ought to have been taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group's and the Company's financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group's financial statements in accordance with IFRSs and the Company's financial statements and the Directors' Remuneration Report in accordance with applicable law and with UK GAAP. The Group's and Company's financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year.


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 Group's financial statements comply with IFRSs, and with regard to the Company's financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 that disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the Group's financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company's financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



M L Young

Company Secretary
7 March 2007

Directors' statement on corporate governance

Statement of appliance of the principles in the Combined Code

The Company has applied the Principles of Good Governance set out in Section 1 of the Combined Code on Corporate Governance (as issued in July 2003) by complying with the Code of Best Practice as reported in the Statement of Compliance on page 39. 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 40.

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. Strategic issues and other items (including such matters as capital structure, financial reporting and controls) are considered in line with a schedule of matters reserved for the decision of the Board. If a decision is not reserved for the Board then authority lies, in accordance with an authorisation policy, with one of the Finance Committee of the Board, the Chief Executive, an executive director or the managing directors of the individual business units.

The Chairman is Sir Colin Terry, the Chief Executive is Mr T Twigger and the senior independent non executive director is Mr D A Robins. The independent non executive directors are considered by the Board to be Mr P J Hill, Mr D A Robins and Mr D M Williams.

Committee membership, number of formal meetings held during 2006 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	2
Mr D A Robins	3	3
Remuneration		
Mr D A Robins (Chairman)	5	5
Sir Alan Cox	5	5
Mr P J Hill	5	5
Nominations		
Sir Colin Terry (Chairman)	2	2
Sir Alan Cox	2	2
Mr P J Hill	2	1
Mr D A Robins	2	2
Mr T Twigger	2	2

The full Board met on eight occasions and these meetings were attended by all directors, except Mr P J Hill who was excused from one meeting together with meetings of the Audit and Nominations Committees, which were held on the same date.

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 2007.

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 year, in addition to the Chairman, there have been three executive directors, two independent non executive directors and one non executive director, Sir Alan Cox, who is not considered to be independent under the Combined Code by virtue of his having been appointed for longer than nine years. Whilst Sir Alan Cox is no longer regarded as independent, the Board considers that his extensive experience in industry and other organisations make him a valuable member of the Board. Following the appointment of Mr D M Williams on 13 December 2006, the Board has three independent non executive directors in addition to the three executive directors.

The senior independent non executive director is Mr D A Robins who assumed the role on 1 March 2007. Sir Alan Cox, who remains a non executive director, agreed to step down from the role on 1 March 2007 on the basis that he is not judged to be independent. The senior independent non executive director is available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate.

4 Appointments to the Board

The Nominations Committee considers any new appointments to the Board but all directors are consulted and the decision to appoint is taken by the Board as a whole. Until December 2006 the Committee consisted of five members, two of whom are considered by the Combined Code to be independent. Since the appointment of Mr D M Williams on 13 December 2006 there have been six members, three of whom are considered to be independent. The Committee is chaired by the Chairman, Sir Colin Terry. The Board has approved written terms of reference for the Committee which are available on the Company's website.

Directors' statement on corporate governance *continued*

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 the appointment of an additional independent non executive director and a new company secretary. The Committee subsequently recommended the appointment to the Board of Mr D M Williams as an independent non executive director and the appointment of Mr M L Young as 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 is a matter for the Board as a whole.

6 Performance evaluation

In January 2007 the Board conducted a self-evaluation assessment. The Chairman led a discussion to consider the Board's "behaviours" and "processes" and the Board reviewed some high level objectives and its performance against these. 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 1985 relating to the removal of a director. In compliance with the Combined Code requirements Sir Alan Cox will be subject to annual re-election in 2007 and each subsequent year.

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 Board has appointed a Remuneration Committee which 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 Combined 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 December 2006. The Committee considered this advice when reviewing salaries to take effect from 1 January 2007. Towers Perrin has no other known connection with the Company.

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

Until December 2006 the Remuneration Committee consisted of three members, two of whom were considered by the Combined Code to be independent. Since the appointment of Mr D M Williams on 13 December 2006 there have been four members, three 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.

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. All new long-term share schemes are submitted to shareholders for approval.

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.

Directors' statement on corporate governance *continued*

C: Accountability and audit

1 Financial reporting

These financial statements contain 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 Group'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 the Board.
- 6 On an annual basis, the managing director of each business 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 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 are 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. The financial procedures were reviewed and updated during 2006.
- 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 90% of underlying operating profit in 2006.

3 Audit Committee and auditors

The Board has appointed an Audit Committee which until December 2006 consisted of three members, two of whom were considered by the Combined Code to be independent. Since the appointment of Mr D M Williams on 13 December 2006 there have been four members, three of whom are considered to be independent. The Chairman of the Committee is non executive director Sir Alan Cox, who is not considered to be independent under the Combined Code by virtue of his having been appointed for longer than nine years. Whilst Sir Alan Cox is no longer regarded as independent, the Board considers that through his extensive experience in industry and other organisations Sir Alan makes a valuable contribution as Chairman of the Committee. Sir Alan will however relinquish his role as Chairman of the Committee at the conclusion of the Annual General Meeting on 26 April 2007 and it is intended that Mr D M Williams be appointed Chairman on that date.

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 2006 the Committee met on three occasions. The external auditors attended these meetings to discuss the scope and the final results of the 2005 audit in detail (which included the main risks facing the Group), the strategy for the 2006 audit, the "hard close" results of the 2006 audit along with any other items which the auditors or the non executive directors wished to discuss. The Audit Committee also reviewed the internal control environment of the Group and received reports from internal audit as described above.

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

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

Directors' statement on corporate governance continued

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 advisor is 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 £0.1 million.

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 and on the Company's website. 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 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 2006 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:

- 1 A.3.2 – At least half of the Board, excluding the Chairman, does not comprise independent non executive directors. Whilst Sir Alan Cox is no longer regarded as independent owing to his appointment as a non executive director for more than nine years, the Board considers that his extensive experience in industry and other organisations make him a valuable member of the Board.
- 2 A.4.1 – A majority of the members of the Nominations Committee were not independent non executive directors. Until December 2006, two out of five members were independent non executive directors. Following the appointment of Mr D M Williams on 13 December this became three out of six.
- 3 B.2.1 – Sir Alan Cox is a member of the Remuneration Committee. However, the Committee also has three independent non executive directors as members.
- 4 C.3.1 – Sir Alan Cox is Chairman of the Audit Committee. Sir Alan Cox is not considered to be independent by virtue of his having been appointed for longer than nine years. Whilst Sir Alan Cox is no longer regarded as being independent, the Board considers that due to his extensive experience gained as a former member of the Financial Reporting Council, and in industry and commerce, Sir Alan makes a valuable contribution as Chairman of the Committee. Sir Alan will however, relinquish his role as Chairman of the Committee at the conclusion of the Annual General Meeting on 26 April 2007 and it is intended that Mr D M Williams be appointed Chairman on that date.

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 23 and 24.

Remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("the Regulations"). 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

Until 13 December 2006, the Remuneration Committee ("Committee") consisted of three non executive directors: Mr D A Robins (Committee Chairman) and Mr P J Hill, both of whom are considered to be independent, and Sir Alan Cox. Following the appointment of Mr D M Williams to the Committee on 13 December 2006 there are now four members, three of whom are considered by the Combined Code to be independent. 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 December 2006 updated this advice. This was taken into account for the salary review which took effect from 1 January 2007.

The Board has approved written terms of reference for the Committee which 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 2007 the main features are:

- basic annual salary;
- 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, up until April 2006, 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 have been replaced by a pensions allowance which is paid directly to the executive directors on an ongoing basis.

Following the introduction of the new Equity Participation Plan and the new Executive Share Option Scheme during 2005, 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, the basic salaries for executive directors have been increased, in line with the above policy, with effect from 1 January 2007 as follows:

T Twigger	£500,000
P E Green	£221,500
S G Young	£288,000

Annual bonus payments

The annual bonus payments for Mr T Twigger, Mr P E Green and Mr S G Young 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 2006 was 110% of basic salary at 31 December 2006 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.

Remuneration report continued

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 Schemes subject to regulatory and scheme limits. The Equity Participation Plan 2005 and Executive Share Option Scheme 2005 were introduced during 2005 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.

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

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 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 ordinary 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 (i.e. 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 Group performance during a three year period commencing at the beginning of the financial year in which the award is made (the "measurement period"). Performance will be measured by comparing the Total Shareholder Return ("TSR") achieved by the Group 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 the Group:

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

* Following its de-listing the Marconi Corporation was replaced in the comparator group by Senior PLC with effect from 1 January 2006.

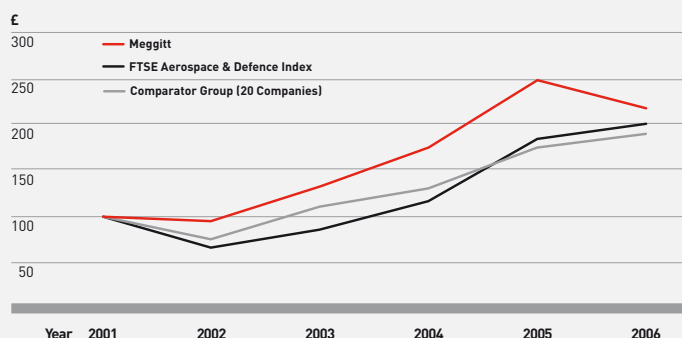
No shares will vest if the Group's TSR performance is below the 50th percentile. At the 50th percentile, 30% of the shares that are subject of the award will vest, rising on a straight-line basis to 100% vesting at the 75th percentile and above. Notwithstanding the Group's relative TSR performance, shares 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 the Group over the measurement period.

Vesting of the matching award will depend on the Group's TSR performance as outlined above and on the executive retaining his investment in ordinary shares during the measurement period. No matching shares will vest if the Group'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.

TSR five-year performance

Growth in the value of a hypothetical £100 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 mid-market value of the share on the first dealing day prior to the grant date.

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 the increase in RPI plus 8% per annum. For growth in EPS between RPI plus 5% per annum and RPI plus 8% per annum, the option can be exercised in respect of 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 Company's EPS performance during the last five years is shown on page 93.

Remuneration report continued

Meggitt PLC Share Incentive Plan

The directors agree an amount of money annually to be set aside from Group profits for the purchase of shares by the Trustee of the Share Incentive Plan 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 were as follows:

	Ordinary shares of 5p each 2006	Shareholding 2005*
Sir Colin Terry	4,284	2,284
T Twigger	451,587	374,462
Sir Alan Cox	20,000	20,000
P E Green	224,644	185,174
P J Hill	6,000	6,000
D A Robins	39,506	38,600
D M Williams	–	–
S G Young	51,804	31,825

* Or date of appointment, if later.

The executive directors were allocated shares at an initial market value of 328.42p under the Share Incentive Plan during 2006 as follows:

	Ordinary shares of 5p each
T Twigger	910
P E Green	910
S G Young	910

These shares have been included in the share interests shown in the table above. Details of directors' share options are shown on pages 44 and 45.

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 2/3 final pensionable salary. The executive directors' pensions are restricted by a Scheme Cap which replaced the HM Revenue and Customs' pensions cap* from 6 April 2006. As the executive directors' benefits from, and contributions to, the MEPP are restricted, additional contributions are made. Until April 2006, these contributions were made based on the excess of basic salary over the pensions cap, to a funded unapproved retirement and death benefits scheme ("Furbs"). With effect from 6 April 2006 no further contributions were made to the Furbs and a pensions allowance is paid instead to the executive directors in order that they might make their own arrangements for retirement savings. The pensions allowance is 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.

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 2006 are shown on page 43. Bonus payments to executive directors are not pensionable. There are no unfunded pension promises or similar arrangements for directors.

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 T Twigger, Mr P E Green and Mr S G Young the Company would pay compensation if it were to terminate the contract in breach of the terms of the contract. The compensation would be the annual remuneration 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 2006 are shown on page 43.

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 and election

At the forthcoming Annual General Meeting, Mr P E Green, Mr P J Hill and Mr S G Young will retire by rotation and are being proposed for re-election. Sir Alan Cox will also retire by reason of having reached the age of 70 and is being proposed for re-election. In addition, Mr D M Williams will retire following his initial appointment by the Board and is being proposed for 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 2006 no executive director was a director of a public company.

Audited information

Details of directors' remuneration

	Basic salary 2006 £	Fees 2006 £	Benefits 2006 £	Bonus payments 2006 £	Other* 2006 £	Total emoluments excluding pension	
						2006 £	2005 £
Executive directors							
T Twigger	482,000	–	27,031	530,000	138,562	1,177,593	982,665
P E Green	214,000	–	13,239	235,000	38,062	500,301	444,228
S G Young	278,000	–	20,133	305,000	62,062	665,195	557,111
Non executive directors							
Sir Colin Terry	–	108,000	–	–	–	108,000	100,000
Sir Alan Cox	–	56,200	5,034	–	–	61,234	57,391
P J Hill	–	39,000	–	–	–	39,000	37,000
D A Robins	–	44,400	–	–	–	44,400	42,000
D M Williams	–	2,030	–	–	–	2,030	–
Former directors							
R W Greaves	–	–	–	–	–	–	34,581
J J Stobie	–	–	–	–	–	–	40,000
Total	974,000	249,630	65,437	1,070,000	238,686	2,597,753	2,294,976

* With effect from 6 April 2006 no further contributions were made to the Furbs. Instead, an allowance was paid to the executive directors in order that they might make their own arrangements for retirement savings.

Directors' pension benefits

Directors' membership of the various pension schemes is shown on page 42.

	T Twigger £	P E Green £	S G Young £
Meggitt Executive Pension Plan			
Accumulated total accrued pension at 31 December 2005	43,700	40,200	7,000
Real increase in accrued pension in year excluding inflation	3,300	3,300	3,600
Total increase in accrued pension in year	4,900	4,700	3,900
Accumulated total accrued pension at 31 December 2006	48,600	44,900	10,900
Transfer value (GN11 basis) at 31 December 2005	647,800	444,000	84,600
Real increase in transfer value excluding inflation less directors' contributions	40,800	28,600	34,400
Directors' contributions	7,600	7,600	7,600
Other increases in transfer value	43,400	25,900	6,600
Transfer value (GN11 basis) at 31 December 2006	739,600	506,100	133,200
Transfer values do not represent a sum payable to the individual director, but represent a potential liability of the pension scheme.			
Funded Unapproved Retirement and Death Benefits Scheme			
Company Payments – 2005	151,932	41,932	68,332
Company Payments – 2006	47,050	13,550	21,550

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			Market price at actual date of transfer	First date for transfer to directors
			at 1 Jan 2006	Allocated during 2006	Transferred to directors		
T Twigger	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	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.

Audited
information continued

Details of directors' remuneration continued

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			Market price at actual date of transfer	First date for transfer to directors	
			at 1 Jan 2006	Allocated during 2006	Transferred to directors			
T Twigger								
Basic Award	10.10.05	337,500	105,982	–	–	105,982	–	10.10.08
Basic Award	04.04.06	361,500	–	100,622	–	100,622	–	04.04.09
Matching Award	10.10.05	225,000	69,444	–	–	69,444	–	10.10.08
Matching Award	04.04.06	241,000	–	68,661	–	68,661	–	04.04.09
P E Green								
Basic Award	10.10.05	150,000	47,103	–	–	47,103	–	10.10.08
Basic Award	04.04.06	160,500	–	44,674	–	44,674	–	04.04.09
Matching Award	10.10.05	100,000	30,864	–	–	30,864	–	10.10.08
Matching Award	04.04.06	107,000	–	30,484	–	30,484	–	04.04.09
S G Young								
Basic Award	10.10.05	195,000	61,234	–	–	61,234	–	10.10.08
Basic Award	04.04.06	208,500	–	58,035	–	58,035	–	04.04.09
Matching Award	10.10.05	130,000	40,123	–	–	40,123	–	10.10.08
Matching Award	04.04.06	139,000	–	39,601	–	39,601	–	04.04.09

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 45:

	Date of grant	Number of options			Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date	
		at 1 Jan 2006	Granted	Exercised					at 31 Dec 2006
T Twigger									
1996 No 1	20.04.98	19,838	–	–	19,838	151.22p	–	20.04.01	19.04.08
1996 No 2	14.12.00	5,902	–	–	5,902	189.36p	–	14.12.03	13.12.07
	17.10.02	172,132	–	–	172,132	159.76p	–	17.10.05	16.10.09
2005, Part B	02.10.03	148,056	–	–	148,056	209.38p	–	02.10.06	01.10.10
	06.10.04	152,439	–	–	152,439	246.00p	–	06.10.07	05.10.11
	10.10.05	276,497	–	–	276,497	325.50p	–	10.10.08	09.10.15
	27.09.06	–	312,987	–	312,987	308.00p	–	27.09.09	26.09.16
	22.10.02	2,953	–	2,953	–	127.98p	356.50p	01.01.06	30.06.06
	07.04.05	2,578	–	–	2,578	220.50p	–	01.06.08	30.11.08
	05.10.06	–	2,759	–	2,759	237.34p	–	01.12.11	31.05.12
		780,395	315,746	2,953	1,093,188				

	Date of grant	Number of options			Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date	
		at 1 Jan 2006	Granted	Exercised					at 31 Dec 2006
P E Green									
1996 No 1	27.03.97	8,125	–	–	8,125	101.52p	–	27.03.00	26.03.07
	20.04.98	14,382	–	–	14,382	151.22p	–	20.04.01	19.04.08
1996 No 2	27.09.01	93,843	–	–	93,843	133.20p	–	27.09.04	26.09.08
	17.10.02	78,241	–	–	78,241	159.76p	–	17.10.05	16.10.09
	02.10.03	71,640	–	–	71,640	209.38p	–	02.10.06	01.10.10
	06.10.04	71,138	–	–	71,138	246.00p	–	06.10.07	05.10.11
2005, Part B	10.10.05	122,887	–	–	122,887	325.50p	–	10.10.08	09.10.15
	27.09.06	–	138,961	–	138,961	308.00p	–	27.09.09	26.09.16
Sharesave	18.10.00	4,576	–	4,576	–	147.48p	367.50p	01.01.06	30.06.06
	22.10.02	5,133	–	–	5,133	127.98p	–	01.01.08	30.06.08
	07.04.05	1,498	–	–	1,498	220.50p	–	01.06.10	30.11.10
	05.10.06	–	2,759	–	2,759	237.34p	–	01.12.11	31.05.12
		471,463	141,720	4,576	608,607				

Audited
information continued

	Date of grant	Number of options			Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
		at 1 Jan 2006	Granted	Exercised				
S G Young								
1996 No1	01.04.04	14,725	–	–	14,725	203.72p	–	31.03.14
1996 No2	01.04.04	211,074	–	–	211,074	203.72p	–	31.03.11
2005, Part B	10.10.05	159,754	–	–	159,754	325.50p	–	09.10.15
	27.09.06	–	180,519	–	180,519	308.00p	–	26.09.16
Sharesave	07.04.05	8,106	–	–	8,106	220.50p	–	30.11.12
		393,659	180,519	–	574,178			

None of the non executive directors held options over the Company's shares at any time during the relevant periods. Between 1 January 2007 and 26 February 2007 (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 75 shares through the Meggitt PLC Share Incentive Plan.

Mr P E Green – acquired 75 shares through the Meggitt PLC Share Incentive Plan.

Mr S G Young – acquired 75 shares through the Meggitt PLC Share Incentive Plan.

The market price of the shares at 31 December 2006 was 310.00p and the range during the year was 273.00p to 382.25p. Options may, in certain circumstances, be exercised or lapse earlier than the dates shown on page 44 and above.

Gains made on exercise of directors' share options	Option	Exercise date	Options exercised	Gain 2006 £'000	Gain 2005 £'000
T Twigger	Sharesave 1998	19.01.06	2,953	7	–
	1996 No 2 Executive Share Option Scheme	10.10.05	317,509	–	579
P E Green	Sharesave 1998	04.01.06	4,576	10	–
	Sharesave 1998	03.10.05	2,912	–	6
	1996 No 2 Executive Share Option Scheme	10.10.05	54,007	–	90
				17	675

Gains in 2006 were made on options granted under the rules of the Meggitt 1998 Sharesave Scheme, as detailed in directors' share interests 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
7 March 2007

Independent auditors' report to the members of Meggitt PLC

We have audited the group financial statements of Meggitt PLC for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense 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 2006 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 (IFRSs) 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 whether in our opinion the information given in the Directors' Report is consistent with the group financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referenced from the Principal Activities and Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 Combined Code 2003 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 the Financial Highlights, Group Capabilities, Chairman's Statement, Group Strategy, Business Review, Corporate Responsibility, Board of Directors, Report of the Directors, Directors' Statement on Corporate Governance, the unaudited part of the Remuneration Report and the other information listed in the content to the Annual report. 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 2006 and of its profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the group financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Reading
7 March 2007

Consolidated income statement

For the year ended 31 December 2006

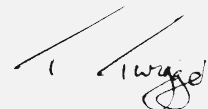
	Notes	2006 £'m	2005 Restated £'m
Continuing operations			
Revenue	5	670.3	616.3
Cost of sales	7	(372.6)	(338.8)
Gross profit		297.7	277.5
Net operating costs	7	(151.2)	(176.1)
Operating profit*		146.5	101.4
Finance income	12	3.3	4.9
Finance costs	13	(19.8)	(19.2)
Net finance costs		(16.5)	(14.3)
Profit before tax from continuing operations**		130.0	87.1
Tax	14	(33.5)	(21.6)
Profit for the year from continuing operations attributable to equity shareholders	39	96.5	65.5
Earnings per share – basic	16	22.2p	15.2p
Earnings per share – diluted	16	22.1p	15.1p
Dividends paid to equity shareholders in the year	17	34.3	31.0
* Underlying operating profit	10	149.2	130.6
** Underlying profit before tax	10	132.7	116.3

Consolidated balance sheet

As at 31 December 2006

	Notes	2006 £'m	2005 Restated £'m
Non-current assets			
Goodwill	19	598.9	546.9
Development costs	20	31.9	21.7
Other intangible assets	21	171.6	182.2
Property, plant and equipment	22	127.6	116.9
Trade and other receivables	25	49.0	68.0
Deferred tax assets	33	32.9	32.0
Investments available for sale	23	–	1.1
		1,011.9	968.8
Current assets			
Inventories	24	154.4	134.5
Trade and other receivables	25	174.8	138.7
Derivative financial instruments	31	8.4	0.1
Current tax recoverable		0.2	6.0
Cash and cash equivalents	26	43.6	45.5
		381.4	324.8
Total assets		1,393.3	1,293.6
Current liabilities			
Trade and other payables	27	(198.2)	(168.2)
Derivative financial instruments	31	–	(4.5)
Current tax liabilities		(17.5)	(20.4)
Bank and other borrowings	29	(17.3)	(13.0)
Provisions	32	(7.5)	(18.4)
		(240.5)	(224.5)
Net current assets		140.9	100.3
Non-current liabilities			
Trade and other payables	28	(4.3)	(4.6)
Derivative financial instruments	31	(0.6)	(1.6)
Deferred tax liabilities	33	(55.2)	(53.3)
Bank and other borrowings	29	(380.0)	(346.8)
Provisions	32	(54.0)	(67.9)
Retirement benefit obligations	34	(97.2)	(98.2)
		(591.3)	(572.4)
Total liabilities		(831.8)	(796.9)
Net assets		561.5	496.7
Equity			
Share capital	36	21.8	21.7
Share premium	39	356.1	350.2
Other reserves	39	14.1	14.1
Hedging and translation reserve	39	(6.3)	(1.1)
Retained earnings	39	175.8	111.8
Capital and reserves attributable to equity holders	39	561.5	496.7

The financial statements were approved by the Board of Directors on 7 March 2007 and signed on its behalf by:


T Twigger
Director

S G Young
Director

Consolidated cash flow statement

For the year ended 31 December 2006

	Notes	2006 £'m	2005 £'m
Cash inflow from operations before exceptional operating costs		133.8	132.8
Cash outflow from exceptional operating costs	11	(1.8)	(5.5)
Cash inflow from operations	41	132.0	127.3
Interest received		1.2	1.4
Interest paid		(17.7)	(14.9)
Debt issue costs		–	(0.3)
Tax paid		(19.5)	(21.2)
Cash inflow from operating activities		96.0	92.3
Purchase of subsidiaries	43	(86.3)	0.5
Net cash acquired with subsidiaries	43	4.7	0.9
Capitalised internal development costs	20	(14.5)	(8.0)
Purchase of other intangible assets	21	(4.6)	(3.5)
Purchase of property, plant and equipment		(31.4)	(16.2)
Proceeds from disposal of property, plant and equipment		4.5	0.5
Proceeds from disposal of investments available for sale	23	0.8	–
Cash outflow from investing activities		(126.8)	(25.8)
Dividends paid to Company's shareholders	17	(32.0)	(26.0)
Issue of equity share capital	39	3.7	2.8
Proceeds from borrowings		96.5	81.2
Repayments of borrowings		(36.0)	(124.6)
Cash inflow/(outflow) from financing activities		32.2	(66.6)
Net increase/(decrease) in cash and cash equivalents		1.4	(0.1)
Cash and cash equivalents at start of year		45.5	42.3
Exchange (losses)/gains on cash and cash equivalents		(3.3)	3.3
Cash and cash equivalents at end of year	26	43.6	45.5

Consolidated statement of recognised income and expense

For the year ended 31 December 2006

	Notes	2006 £'m	2005 Restated £'m
Currency translation differences		(7.2)	3.5
Taxation recognised on currency translation differences – current	14	2.0	1.0
Actuarial losses	34	(4.6)	(24.4)
Taxation recognised on actuarial losses – deferred	14	1.3	8.0
Net expense recorded directly in equity		(8.5)	(11.9)
Profit for the year	39	96.5	65.5
Total recognised income for the year		88.0	53.6

Notes to the financial statements

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. Certain comparatives have been restated following the finalisation during the year of the fair values of acquisitions completed in the prior year. Further details on the restatements are 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 at the dates of the transaction. 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 net 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 net investment 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.

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

Items which are significant by virtue of their size or nature and which are considered non-recurring are classified as exceptional operating items. Such items, which include for instance the costs of integrating significant acquisitions and profits or losses made on the disposal of businesses, are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements. Exceptional operating items are excluded from the profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Notes to the
financial statements continued

2 Summary of significant accounting policies continued

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 is no longer amortised but is tested annually for impairment. Goodwill is 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 gain 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 intangible assets separately from goodwill 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 those 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 backlog

Property, plant and equipment

Property, plant and equipment is recorded at cost less subsequent depreciation and impairment except for land which is shown 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 these 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

The assets' residual values and useful lives are reviewed annually and adjusted if appropriate.

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

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 in full 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 "CGU's").

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.

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.

Notes to the financial statements *continued*

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 cashflows 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 on a straight line basis over the periods expected to benefit (typically through the sale of replacement parts) from receiving the status of "principal supplier", generally over terms ranging up to 15 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 using the effective interest method. Any related interest accruals are included within 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 and the difference recognised as finance costs.

Pension scheme arrangements

The Group operates a number of defined contribution and defined benefit pension schemes.

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 schemes, 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 represent for each scheme the difference between the fair value of the schemes' assets and the present value of the schemes' 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 expense.

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, with a corresponding adjustment to equity. 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.

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.

Notes to the financial statements continued

2 Summary of significant accounting policies continued

Derivative financial instruments and hedging continued

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.

To the extent that the maturity of the financial instrument is more than 12 months from the balance sheet date and the Group is applying hedge accounting the fair value is reported as a non-current asset or non-current liability. All other derivative financial instruments are reported as current assets or current liabilities.

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. The Group currently only applies fair value hedge accounting for hedging fixed interest risk on borrowings.

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 hedges

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.

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan. The consideration paid for own 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.

Restatement of prior periods for finalisation of fair values arising on acquisitions

Where businesses are acquired fair values of the net assets of the acquired business are finalised within 12 months of the acquisition date, with the exception of certain deferred tax balances. All fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results (see note 44).

Recent accounting developments

The following new standards or interpretations to existing standards have been published and are mandatory for the Group's future accounting periods. They have not been early adopted in these financial statements:

- *IFRS 7, Financial instruments: Disclosures*. This new standard incorporates the disclosure requirements of IAS 32, which it supersedes, and adds further quantitative disclosures in relation to financial instruments. The Group will apply IFRS 7 from 1 January 2007, which will impact the Group's relevant disclosures.
- *IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies [effective for annual periods beginning on or after 1 March 2006]*. IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the Group entities has a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations.
- *IFRIC 8, Scope of IFRS 2 [effective for annual periods beginning on or after 1 May 2006]*. IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any significant impact on the Group's financial statements.
- *IFRIC 9, Reassessment of embedded derivatives [effective for annual periods beginning on or after 1 June 2006]*. IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is not relevant to the Group's operations because none of the terms of the Group's contracts have been changed.

Notes to the financial statements *continued*

- *IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).* IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007 but it is not expected to have any significant impact on the Group's financial statements.

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, in accordance with 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's 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 provided 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 on these estimates 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 Corporation prior to its acquisition by the Group in 1999. Advice is received by the Group from its environmental consultants and legal advisors 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 cashflows.

Notes to the financial statements continued

5 Revenue

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

	2006 £'m	2005 £'m
Sale of goods	625.2	578.3
Contract accounting revenue	32.7	30.0
Revenue from services	12.4	8.0
Total	670.3	616.3

6 Segmental analysis

Primary reporting format – business segments

The Group's primary segments are its business segments.

The development of the Group's products and technology and the markets in which it operates has led to an internal reorganisation of the businesses that operate most closely together and the organisational management for those business units. The Group now manages its businesses under the key segments of Aerospace Equipment, Sensing Systems and Defence Systems. Reconciliations of the 2005 results from the old to the new reported segments are provided below.

Year ended 31 December 2006

	Aerospace Equipment £'m	Sensing Systems £'m	Defence Systems £'m	Total £'m
Revenue	356.6	218.9	94.8	670.3
Underlying operating profit (see note 10)	92.3	39.8	17.1	149.2
Exceptional operating costs (see note 11)	–	–	(1.5)	(1.5)
Amortisation of intangibles acquired in business combinations (see note 21)	(9.7)	(0.9)	(0.2)	(10.8)
Disposal of inventory revalued in business combinations	–	(0.1)	–	(0.1)
Financial instruments	9.8	2.3	–	12.1
Goodwill adjustment arising from recognition of tax losses (see note 14)	(2.4)	–	–	(2.4)
Operating profit	90.0	41.1	15.4	146.5
Net finance costs				(16.5)
Profit before tax				130.0
Tax				(33.5)
Profit for the year				96.5
Depreciation (see note 22)	8.8	4.8	1.1	14.7
Amortisation of intangible assets* (see notes 20 and 21)	12.6	4.0	0.4	17.0
Capital expenditure**	23.5	26.3	1.1	50.9

* Of the total amortisation in the year £6.2 million has been charged to underlying profit as defined in note 10.

** Capital expenditure includes internal development costs capitalised of £14.5 million (see note 20), other purchased intangibles of £4.6 million (see note 21), property plant and equipment of £31.8 million (see note 22) but excludes additions arising from the acquisition of businesses which are shown separately in note 43.

As at 31 December 2006

	Segment assets £'m	Segment liabilities £'m
Aerospace Equipment	908.5	(160.3)
Sensing Systems	265.1	(71.4)
Defence Systems	139.4	(22.9)
Unallocated	3.6	(9.4)
Total	1,316.6	(264.0)

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

Notes to the
financial statements continued

6 Segmental analysis continued

Year ended 31 December 2005 (Restated)

	Aerospace £'m	Reclassified to Sensing Systems £'m	Aerospace Equipment £'m	Electronics £'m	Reclassified from Aerospace £'m	Sensing Systems £'m	Defence Systems £'m	Total £'m
Revenue	458.6	(130.0)	328.6	71.7	130.0	201.7	86.0	616.3
Underlying operating profit (see note 10)	107.2	(23.8)	83.4	8.7	23.8	32.5	14.7	130.6
Exceptional operating costs (see note 11)	(7.0)	–	(7.0)	–	–	–	–	(7.0)
Amortisation of intangibles acquired in business combinations (see note 21)	(10.4)	–	(10.4)	(0.6)	–	(0.6)	(0.2)	(11.2)
Disposal of inventory revalued in business combinations	(0.7)	0.5	(0.2)	(0.1)	(0.5)	(0.6)	(0.1)	(0.9)
Financial instruments	(9.1)	2.4	(6.7)	(1.0)	(2.4)	(3.4)	–	(10.1)
Operating profit	80.0	(20.9)	59.1	7.0	20.9	27.9	14.4	101.4
Net finance costs								(14.3)
Profit before tax								87.1
Tax								(21.6)
Profit for the year								65.5
Depreciation (see note 22)	12.3	(3.5)	8.8	2.2	3.5	5.7	1.0	15.5
Amortisation of intangible assets* (see notes 20 and 21)	12.6	(0.3)	12.3	0.7	0.3	1.0	0.3	13.6
Capital expenditure**	23.0	(10.1)	12.9	3.5	10.1	13.6	1.7	28.2

* Of the total amortisation in the year £2.4 million has been charged to underlying profit as defined in note 10.

** Capital expenditure includes internal development costs capitalised of £8.0 million (see note 20), other purchased intangibles of £3.5 million (see note 21), property plant and equipment of £16.7 million (see note 22) but excludes additions arising from the acquisition of businesses.

As at 31 December 2005 (Restated)

	Aerospace £'m	Reclassified to Sensing Systems £'m	Aerospace Equipment £'m	Electronics £'m	Reclassified from Aerospace £'m	Sensing Systems £'m	Defence Systems £'m	Unallocated £'m	Total £'m
Segment assets	1,089.4	(190.5)	898.9	47.4	190.5	237.9	67.9	4.3	1,209.0
Segment liabilities	(219.7)	41.3	(178.4)	(16.4)	(41.3)	(57.7)	(19.8)	(8.9)	(264.8)

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.

	2006 £'m	2005 £'m
Revenue		
UK	108.4	105.5
Rest of Europe	152.7	131.0
North America	331.5	317.1
Rest of World	77.7	62.7
Total	670.3	616.3

Revenues are based on the location of the customer.

	2006 £'m	2005 Restated £'m
Total segment assets		
UK	736.3	671.0
Rest of Europe	89.9	70.2
North America	486.1	464.1
Rest of World	4.3	3.7
Total	1,316.6	1,209.0

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

Notes to the
financial statements continued**6 Segmental analysis continued**

	2006 £'m	2005 £'m
Capital expenditure		
UK	24.7	10.4
Rest of Europe	10.2	4.9
North America	15.6	12.4
Rest of World	0.4	0.5
Total	50.9	28.2

Capital expenditure is based on the location of the assets, and includes internal development costs capitalised, other purchased intangibles, property plant and equipment but excludes additions arising from the acquisition of businesses which are shown separately in note 43.

7 Expenses by nature

	2006 £'m	2005 Restated £'m
Raw materials and consumables used	180.9	169.6
Changes in inventories of finished goods and work in progress	12.6	15.5
Employee costs (see note 9)	235.2	220.3
Depreciation of property, plant & equipment (see note 22)	14.7	15.5
Amortisation of development costs (see note 20)	3.0	1.0
Amortisation of other purchased intangible assets (see note 21)	3.2	1.4
Amortisation of intangibles acquired in business combinations (see note 10)	10.8	11.2
Foreign exchange gains	(1.5)	(2.5)
Operating lease rentals – Land and buildings	7.5	8.3
Operating lease rentals – Plant, equipment and vehicles	0.7	0.5
Exceptional operating costs (see note 11)	1.5	7.0
Disposal of inventory revalued in business combinations (see note 10)	0.1	0.9
Financial instruments (see note 10)	(12.1)	10.1
Goodwill adjustment arising from recognition of tax losses (see note 14)	2.4	–
Other administration costs	66.0	57.4
	525.0	516.2
Other operating income	(1.2)	(1.3)
Total	523.8	514.9
Analysed in the income statement:		
Cost of sales	372.6	338.8
Net operating costs	151.2	176.1
Total	523.8	514.9

Research and development costs charged to the income statement were £26.0 million (2005: £23.8 million).

8 Auditor remuneration

	2006 £'m	2005 £'m
Payable to PricewaterhouseCoopers LLP and network firms:		
Audit services : Fees payable for the audit of parent company and consolidated financial statements	0.2	0.2
Non-audit services : Fees payable for the audit of the company's subsidiaries pursuant to legislation	0.8	0.8
: Services relating to corporate finance transactions	0.1	–
: All other services	0.9	0.3
Total	2.0	1.3

"All other services" primarily relate to fees in respect of cost saving advice on indirect procurement.

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 £29,000 (2005: £25,000).

Notes to the
financial statements continued

9 Employee costs

	2006 £'m	2005 £'m
Employee costs during the year including executive directors:		
Wages and salaries	189.2	176.8
Social security costs	27.0	25.4
Pension costs – defined contribution schemes (see note 34)	7.5	7.1
Pension costs – defined benefit schemes (see note 34)	8.2	8.7
Share-based payment (see note 37)	3.3	2.3
Total	235.2	220.3
	2006 No.	2005 No.
Average monthly number of persons employed including executive directors:		
Production	4,859	4,632
Selling and distribution	572	515
Administration	594	535
Total	6,025	5,682

Details of directors' remuneration can be found in the Remuneration Report on page 40.

10 Reconciliations between profit and underlying profit

Underlying profit is used by the Board to measure and monitor the underlying trading performance of the Group and excludes certain items as shown below:

	Note	2006 £'m	2005 Restated £'m
Operating profit		146.5	101.4
Exceptional operating costs (see note 11)		1.5	7.0
Amortisation of intangibles acquired in business combinations	a	10.8	11.2
Disposal of inventory revalued in business combinations	b	0.1	0.9
Financial instruments	c	(12.1)	10.1
Goodwill adjustment arising from recognition of tax losses	d	2.4	–
Adjustments to operating profit		2.7	29.2
Underlying operating profit		149.2	130.6
Profit before tax		130.0	87.1
Adjustments to operating profit per above		2.7	29.2
Underlying profit before tax		132.7	116.3
Profit for the year		96.5	65.5
Adjustments to operating profit per above		2.7	29.2
Tax effect of adjustments to operating profit		(2.3)	(8.6)
Underlying profit for the year		96.9	86.1

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

	2006 £'m	2005 Restated £'m
Amortisation of other intangible assets (see note 21)	14.0	12.6
Less amortisation of purchased intangible assets (see note 21)	(3.2)	(1.4)
Amortisation of intangibles acquired in business combinations	10.8	11.2

- 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 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.

Notes to the
financial statements *continued***10 Reconciliations between profit and underlying profit** *continued*

- 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. Interest rate swaps are used as a hedge against fixed rate borrowings, but any difference between the movement in the fair values of the swaps and the associated borrowings is excluded from underlying profit.

	2006 £'m	2005 £'m
Movement in the fair value of foreign currency forward contracts (see note 31)	(14.0)	11.1
Impact of retranslating net foreign currency assets and liabilities at spot rate	2.0	(1.0)
Difference between the fair value of interest rate swaps and associated fixed rate borrowings	(0.1)	–
Financial instruments – (Gain)/Loss	(12.1)	10.1

- d. The goodwill adjustment arises from the recognition of tax losses during the year in respect of businesses acquired in earlier years. These tax losses existed when the businesses were acquired but a deferred tax asset was not recognised at the time as the recoverability of those losses was not probable at the time the fair values were finalised. IFRS requires that goodwill is adjusted in the year the recoverability becomes probable with a corresponding charge recorded in profit before tax.

11 Exceptional operating costs

The exceptional charge in 2006 of £1.5 million relates to the consolidation in both the UK and the US of Defence Systems businesses following the acquisition of Firearms Training Systems Inc ("FATS"). In the UK, FATS UK is being consolidated onto the Meggitt Defence Systems Limited site in Kent. In the US, Caswell is being consolidated onto the FATS US site in Suwanee, Georgia. The total cost of these consolidations, which will be completed in the first half of 2008, is expected to be £3.2 million, the balance of which is expected to be expensed in 2007.

The exceptional charge in 2005 of £7.0 million includes £2.0 million for the completion of the consolidation of Meggitt's polymers business into Dunlop Aerospace's facilities in the Midlands and £5.0 million arising from the requirement to move the Avica facility in Hemel Hempstead following the explosion at the Buncfield Fuel Distribution Depot.

Cash expended in the year on these items amounted to £1.8 million (2005: £5.5 million) of which £0.1 million (2005: £Nil) related to the FATS consolidations, £0.2 million (2005: £4.5 million) related to the consolidation of Meggitt's polymers business, £1.0 million (2005: £Nil) related to the Avica facility move and £0.5 million (2005: £1.0 million) related to operating exceptional costs of earlier years.

The tax credit in respect of the exceptional operating costs was £0.5 million (2005: £2.1 million).

12 Finance income

	2006 £'m	2005 £'m
Interest on bank deposits	0.8	0.5
Other receivables – discount unwinding	1.0	2.3
Other income	0.5	1.0
	2.3	3.8
Unwinding of interest on retirement benefit liabilities	(21.8)	(20.3)
Expected return on retirement benefit assets	22.8	21.4
Retirement benefit obligations (see note 34)	1.0	1.1
Finance income	3.3	4.9

13 Finance costs

	2006 £'m	2005 £'m
Bank borrowings	10.9	7.7
Senior notes	7.3	7.4
Other interest	0.6	0.6
Provisions – discount unwinding (see note 32)	1.0	3.5
Finance costs	19.8	19.2

Notes to the financial statements continued

14 Tax

	2006 £'m	2005 Restated £'m
Current tax – current year	27.8	25.0
Current tax – adjustment in respect of prior years	0.8	(5.2)
Deferred tax – current year	11.7	2.8
Deferred tax – adjustment in respect of prior years	(4.4)	(1.0)
Deferred tax – adjustments to goodwill on recognition of tax assets* (see note 10)	(2.4)	–
Taxation	33.5	21.6

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:

	2006 £'m	2005 Restated £'m
Profit on ordinary activities before taxation at weighted average standard tax rate of 34.3%** (2005: 36.1%)	44.6	31.5
Effects of:		
Permanent differences	0.1	0.3
Timing differences	(0.1)	(1.7)
Tax credits and incentives	(5.0)	(2.0)
Prior year credit	(3.7)	(6.5)
Deferred tax – adjustments to goodwill on recognition of tax assets*	(2.4)	–
Total taxation	33.5	21.6

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

	2006 £'m	2005 £'m
Current tax on exchange movements	(2.0)	(1.0)
Deferred tax on actuarial gains and losses	(1.3)	(8.0)
Deferred tax on share based payment	(2.4)	1.8
Deferred tax arising on adoption of IAS 32 and IAS 39 on 1 January 2005	–	1.7
Total taxation recorded in equity	(5.7)	(5.5)

* The Group has acquired businesses with tax losses and other deferred tax assets. These have been recognised in the balance sheet on acquisition to the extent that they were expected to be realised based on information at the acquisition date. The Group has subsequently been able to use tax losses and other assets to a greater extent than anticipated on acquisition. In those cases the value of goodwill is reduced. In order to comply with the requirements of IAS12, Income Taxes, a charge is reported in operating expenses (as shown in note 10) whilst a deferred tax credit is made. The Group continues to make use of tax losses and other reliefs wherever possible in order to reduce the level of payments to the tax authorities, notwithstanding the adverse impact on reported profits before tax.

** The sensitivity of the tax charge to changes in the tax rate is such that a one percentage point increase or reduction in the tax rate would cause the total taxation charge for 2006 to increase or reduce respectively by approximately £1.3 million.

15 Profit of parent company

The consolidated profit attributable to the shareholders of Meggitt PLC includes a profit, after dividends received, of £16.8 million (2005: £70.4 million) which has been dealt with in the accounts of that Company. Meggitt PLC, which prepares its accounts in accordance with UK GAAP, has taken advantage of the legal dispensation contained in Section 230 of the Companies Act 1985 allowing it not to publish a separate profit and loss account.

Notes to the
financial statements *continued***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 used excludes any shares bought by the Group and held as own shares (see note 38). 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.

	2006 £'m	2006 No. 'm	2006 Pence	2005 Restated £'m	2005 No. 'm	2005 Restated Pence
Profit attributable to equity shareholders	96.5	434.5	22.2	65.5	430.8	15.2
Own shares (see note 38)	–	(0.1)	–	–	(0.1)	–
Basic EPS	96.5	434.4	22.2	65.5	430.7	15.2
Effect of dilutive potential ordinary shares – options	–	2.8	(0.1)	–	2.6	(0.1)
Diluted EPS	96.5	437.2	22.1	65.5	433.3	15.1

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

	2006 Pence	2005 Restated Pence
Basic EPS	22.2	15.2
Add back effects of:		
Exceptional operating costs	0.3	1.1
Amortisation of intangibles acquired in business combinations	1.8	1.8
Disposal of inventory revalued in business combinations	–	0.2
Financial instruments	(2.0)	1.7
Underlying EPS	22.3	20.0

17 Dividends

	2006 £'m	2005 £'m
In respect of earlier years	–	20.6
In respect of 2005:		
Interim of 2.40p per share	–	10.4
Final of 5.30p per share	23.0	–
In respect of 2006:		
Interim of 2.60p per share	11.3	–
Dividends paid	34.3	31.0
Less paid as scrip dividend (see note 42)	(2.3)	(5.0)
Dividends paid in cash	32.0	26.0

A final dividend in respect of 2006 of 6.00p per share (2005: 5.30p), amounting to a total final dividend of £26.2 million (2005: £23.0 million) is to be proposed at the Annual General Meeting in April 2007. 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.

	2006 £'m	2005 £'m
Wages and salaries	5.0	4.0
Social security costs	0.8	0.7
Pension costs – defined contribution schemes	0.1	0.3
Pension costs – defined benefit schemes	0.3	0.3
Share based payment	1.2	0.9
Total	7.4	6.2

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 40 which constitutes part of these financial statements.

Notes to the
financial statements continued

19 Goodwill

	Total £'m
At 1 January 2005	
Cost	515.8
Year ended 31 December 2005	
Opening cost	515.8
Exchange rate adjustments	26.0
Businesses acquired as restated	5.1
Closing cost – restated	546.9
Year ended 31 December 2006	
Opening cost	546.9
Exchange rate adjustments	(35.5)
Businesses acquired (see note 43)	89.9
Adjustment arising from recognition of tax losses (see note 10)	(2.4)
Closing cost	598.9

Goodwill is allocated to the Group's cash generating units (CGU's) 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 (2005: £Nil) and the cumulative impairment charge recognised to date was £Nil (2005: £Nil).

The key assumptions used in the impairment calculations were:

- The forecast operating cashflows 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% (2005: 8%).

An analysis of goodwill by significant acquisition is shown below at 31 December 2006:

	2006 £'m
Arising from the acquisition of:	
Whittaker Corporation	159.0
Design and Manufacturing division of Dunlop Standard Aerospace Group Limited	207.4
Firearms Training Systems Inc	67.2
Other	165.3
Total	598.9

Sensitivity analysis as at 31 December 2006 has indicated that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

A segment level summary of goodwill is shown below:

	2006 £'m	2005 Restated £'m
Aerospace Equipment	420.3	433.0
Sensing Systems	85.8	84.8
Defence Systems	92.8	29.1
Total	598.9	546.9

As detailed in note 6 during the year the Group changed the segments for which information is reported. A reconciliation of the segment level summary of goodwill for 2005 between the old and new segment definitions is provided below:

	Aerospace £'m	Reclassified to Sensing Systems £'m	Aerospace Equipment £'m	Electronics £'m	Reclassified from Aerospace £'m	Sensing Systems £'m	Defence Systems £'m	2005 Restated £'m
Goodwill by segment	512.5	(79.5)	433.0	5.3	79.5	84.8	29.1	546.9

Notes to the
financial statements continued**20 Development costs**

	Total £'m
At 1 January 2005	
Cost	23.8
Accumulated amortisation	(9.4)
Net book amount	14.4
Year ended 31 December 2005	
Opening net book amount	14.4
Exchange rate adjustments	0.3
Capitalisation of internal development costs	8.0
Amortisation charge	(1.0)
Closing net book amount	21.7
At 31 December 2005	
Cost	31.3
Accumulated amortisation	(9.6)
Net book amount	21.7
Year ended 31 December 2006	
Opening net book amount	21.7
Exchange rate adjustments	(1.3)
Capitalisation of internal development costs	14.5
Amortisation charge	(3.0)
Closing net book amount	31.9
At 31 December 2006	
Cost	44.3
Accumulated amortisation	(12.4)
Net book amount	31.9

Notes to the
financial statements continued

21 Other intangible assets

	Customer relationships (*) £'m	Technology (*) £'m	Order backlogs (*) £'m	Other (*) £'m	Other purchased £'m	Total £'m
At 1 January 2005						
Cost	136.0	35.8	6.1	7.1	6.3	191.3
Accumulated amortisation	(1.9)	(0.5)	(0.9)	–	(2.9)	(6.2)
Net book amount	134.1	35.3	5.2	7.1	3.4	185.1
Year ended 31 December 2005						
Opening net book amount	134.1	35.3	5.2	7.1	3.4	185.1
Exchange rate adjustments	0.6	0.2	–	0.1	0.1	1.0
Businesses acquired as restated	2.0	1.0	0.6	1.4	0.2	5.2
Additions	–	–	–	–	3.5	3.5
Amortisation charge as restated	(6.6)	(1.7)	(2.7)	(0.2)	(1.4)	(12.6)
Closing net book amount – restated	130.1	34.8	3.1	8.4	5.8	182.2
At 31 December 2005						
Cost	138.7	37.0	6.7	8.5	11.3	202.2
Accumulated amortisation	(8.6)	(2.2)	(3.6)	(0.1)	(5.5)	(20.0)
Net book amount – restated	130.1	34.8	3.1	8.4	5.8	182.2
Year ended 31 December 2006						
Opening net book amount	130.1	34.8	3.1	8.4	5.8	182.2
Exchange rate adjustments	(0.6)	(0.2)	–	(0.1)	(0.3)	(1.2)
Additions	–	–	–	–	4.6	4.6
Amortisation charge	(6.7)	(1.7)	(2.1)	(0.3)	(3.2)	(14.0)
Closing net book amount	122.8	32.9	1.0	8.0	6.9	171.6
At 31 December 2006						
Cost	138.0	36.8	6.7	8.5	14.5	204.5
Accumulated amortisation	(15.2)	(3.9)	(5.7)	(0.5)	(7.6)	(32.9)
Net book amount	122.8	32.9	1.0	8.0	6.9	171.6

* Acquired in a business combination

Notes to the
financial statements *continued***22 Property, plant and equipment**

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2005			
Cost	77.5	228.0	305.5
Accumulated depreciation	(20.8)	(173.2)	(194.0)
Net book amount	56.7	54.8	111.5
Year ended 31 December 2005			
Opening net book amount	56.7	54.8	111.5
Exchange rate adjustments	0.5	1.6	2.1
Businesses acquired	0.9	1.5	2.4
Additions	2.7	14.0	16.7
Disposals	–	(0.3)	(0.3)
Depreciation charge	(1.8)	(13.7)	(15.5)
Closing net book amount	59.0	57.9	116.9
At 31 December 2005			
Cost	82.0	245.5	327.5
Accumulated depreciation	(23.0)	(187.6)	(210.6)
Net book amount	59.0	57.9	116.9
Year ended 31 December 2006			
Opening net book amount	59.0	57.9	116.9
Exchange rate adjustments	(1.7)	(2.8)	(4.5)
Businesses acquired (see note 43)	0.2	0.8	1.0
Additions	18.9	12.9	31.8
Disposals	(1.2)	(1.7)	(2.9)
Depreciation charge	(1.9)	(12.8)	(14.7)
Closing net book amount	73.3	54.3	127.6
At 31 December 2006			
Cost	95.5	232.2	327.7
Accumulated depreciation	(22.2)	(177.9)	(200.1)
Net book amount	73.3	54.3	127.6

23 Investments available for sale

	2006 £'m	2005 £'m
Other investments	–	1.1

During the year the Group disposed of its investment in Delta F Holdings Corporation (registered in Delaware, USA) being 14.1% of issued ordinary share capital for £0.8 million, recording a loss of £0.3 million.

Notes to the financial statements continued

24 Inventories

	2006 £'m	2005 Restated £'m
Contract costs incurred	8.9	10.2
Less progress billings	(3.2)	(3.8)
	5.7	6.4
Raw materials and bought-in components	63.8	56.5
Manufacturing work in progress	52.2	43.7
Finished goods and goods for resale	32.7	27.9
Total	154.4	134.5

The cost of inventories recognised as an expense and included in cost of sales amounted to £193.5 million (2005: £185.1 million as restated).

25 Trade and other receivables

	2006 £'m	2005 £'m
Trade receivables	124.7	112.1
Amounts recoverable on contracts	7.5	3.7
Prepayments and accrued income	4.2	3.4
Deferred costs	32.2	28.9
Other receivables	55.2	58.6
Total	223.8	206.7
Less non-current portion:		
Deferred costs	28.9	26.0
Other receivables	20.1	42.0
Non-current portion	49.0	68.0
Current portion	174.8	138.7

The Group's trade receivables are stated after a provision for impairment of £4.0 million (2005: £3.8 million). The provision for impairment is based on a specific risk assessment taking into account past default experience.

During the year amortisation of £3.2 million (2005: £3.1 million) was charged to the income statement in respect of deferred costs. The deferred costs relate to businesses within the Aerospace Equipment segment.

Other receivables in total includes £24.7 million (2005: £44.4 million) 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 £5.3 million (2005: £4.6 million) is shown as current.

Other receivables in total also includes £0.3 million (2005: £0.7 million) 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 (Halifax EES Trustees International Ltd, St Helier, Jersey) relating to the loans as follows:

Scheme	Date of award	Value of award £'m	No. of shares 'm
1996 Equity Participation Scheme	09.03.05	1.0	0.4

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.

Notes to the
financial statements continued

26 Cash and cash equivalents

	2006 £'m	2005 £'m
Cash at bank and in hand	43.6	45.5
Cash and cash equivalents	43.6	45.5

All cash and cash equivalents balances are subject to interest at floating rates.

27 Trade and other payables – current

	2006 £'m	2005 £'m
Payments received on account	47.3	20.6
Trade payables	65.2	61.3
Social security and other taxes	4.2	3.4
Accrued expenses	10.3	9.4
Deferred consideration on acquisitions (see note 43)	3.2	–
Other payables	68.0	73.5
Total	198.2	168.2

28 Trade and other payables – non-current

	2006 £'m	2005 £'m
Other payables	4.3	4.6
Total	4.3	4.6

29 Bank and other borrowings

	2006 £'m	2005 £'m
Current		
Bank loans	16.0	11.5
Other loans	1.3	1.5
Total current	17.3	13.0
Non-current		
Bank loans	247.9	196.7
Other loans	132.1	150.1
Total non-current	380.0	346.8
Total borrowings	397.3	359.8
Analysis of borrowings repayable:		
in one year or less	17.3	13.0
in more than one year but not more than two years	1.2	1.2
in more than two years but not more than five years	250.7	198.8
in more than five years	128.1	146.8
Total	397.3	359.8

Borrowings are stated after deduction of unamortised debt issue costs. Debt issue costs are being written off over the period of the facility to which they relate. Secured borrowings amounted to £0.8 million (2005: £0.8 million).

Notes to the
financial statements continued

29 Bank and other borrowings continued

The Group had the following committed facilities:

	2006			2005		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
Senior notes (USD 250.0 million)	127.7	–	127.7	145.6	–	145.6
Syndicated credit facility (USD 680.0 million)	237.0	110.4	347.4	175.8	220.3	396.1
Total	364.7	110.4	475.1	321.4	220.3	541.7

The Group issued USD 250.0 million of loan notes to private investors in 2003. These were all drawn at 31 December 2006 and the sterling equivalent was £127.7 million. Of these, USD 180.0 million carry an interest rate of 5.36% and are due for repayment in 2013, and the balance of USD 70.0 million carry an interest rate of 5.46% and are due for repayment in 2015.

The Group renegotiated its USD 680.0 million, five year, unsecured multi-currency revolving credit facility during 2005. At 31 December 2006 the amounts drawn under this facility were £237.0 million represented by borrowings denominated in US dollars of £194.2 million (US dollars: \$380 million), in Euros of £8.7 million (Euros: €13 million), in Swiss francs of £23.1 million (Swiss francs: CHF55 million) and in Sterling of £11.0 million. Borrowings under the facility are subject to interest at floating rates.

The committed facilities outstanding at 31 December 2006 and 2005 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:

	2006		2005	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Current	17.3	17.3	13.0	13.0
Non-current	380.0	377.6	346.8	346.5
Total	397.3	394.9	359.8	359.5

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 2006:

	Floating £'m	Fixed £'m	Non-interest bearing £'m	Total £'m	Fixed rate borrowings	
					Weighted average interest rate %	Weighted average period for which rate is fixed years
Sterling	19.1	0.3	–	19.4	3.0	7.7
US dollars	226.4	99.7	–	326.1	5.4	7.2
Swiss francs	31.1	–	–	31.1		
Euro	12.9	0.9	4.6	18.4	5.5	3.3
Other	3.6	–	–	3.6		
Gross borrowings	293.1	100.9	4.6	398.6		
Less unamortised debt issue costs	(0.8)	(0.5)	–	(1.3)		
Book value of borrowings	292.3	100.4	4.6	397.3		

As at 31 December 2005:

	Floating £'m	Fixed £'m	Non-interest bearing £'m	Total £'m	Fixed rate borrowings	
					Weighted average interest rate %	Weighted average period for which rate is fixed years
Sterling	–	0.9	–	0.9	3.0	8.7
US dollars	186.3	114.1	–	300.4	5.4	8.2
Swiss francs	35.5	–	–	35.5		
Euro	14.3	1.1	4.9	20.3	5.3	3.4
Other	4.3	–	–	4.3		
Gross borrowings	240.4	116.1	4.9	361.4		
Less unamortised debt issue costs	(1.1)	(0.5)	–	(1.6)		
Book value of borrowings	239.3	115.6	4.9	359.8		

The weighted average period to maturity for non-interest bearing borrowings is 2.8 years (2005: 2.9 years).

Notes to the financial statements continued

30 Financial instruments

For cash, 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 and by applying year end exchange rates. Market rates have been used to determine the fair values of the interest rate and foreign exchange derivatives.

The book values and fair values of financial instruments are set out below:

	2006 Book value £'m	2006 Fair value £'m	2005 Book value £'m	2005 Fair value £'m
Financial assets				
Non-current:				
Trade and other receivables	49.0	49.0	68.0	68.0
Current:				
Trade and other receivables	174.8	174.8	138.7	138.7
Derivative financial instruments	8.4	8.4	0.1	0.1
Cash and cash equivalents	43.6	43.6	45.5	45.5
	275.8	275.8	252.3	252.3
Financial liabilities				
Current:				
Trade and other payables	(198.2)	(198.2)	(168.2)	(168.2)
Derivative financial instruments	–	–	(4.5)	(4.5)
Bank and other borrowings	(17.3)	(17.3)	(13.0)	(13.0)
Non-current:				
Trade and other payables	(4.3)	(4.3)	(4.6)	(4.6)
Derivative financial instruments	(0.6)	(0.6)	(1.6)	(1.6)
Bank and other borrowings	(380.0)	(377.6)	(346.8)	(346.5)
	(600.4)	(598.0)	(538.7)	(538.4)
Total	(324.6)	(322.2)	(286.4)	(286.1)

The above table excludes investments available for sale whose fair value cannot be measured reliably (see note 23).

31 Derivative financial instruments

	Contract or underlying principal amount		Fair value	
	2006 Assets £'m	2006 Liabilities £'m	2006 Assets £'m	2006 Liabilities £'m
Interest rate swaps – fair value hedges	–	(28.1)	–	(0.6)
Foreign currency forward contracts	113.6	(7.2)	8.4	–
Total	113.6	(35.3)	8.4	(0.6)
Less non-current portion:				
Interest rate swaps – fair value hedges	–	(28.1)	–	(0.6)
Non-current portion	–	(28.1)	–	(0.6)
Current portion	113.6	(7.2)	8.4	–

Notes to the
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31 Derivative financial instruments continued

	Contract or underlying principal amount		Fair value	
	2005 Assets £'m	2005 Liabilities £'m	2005 Assets £'m	2005 Liabilities £'m
Interest rate swaps – fair value hedges	–	(32.0)	–	(0.4)
Foreign currency forward contracts	10.9	(130.9)	0.1	(5.7)
Total	10.9	(162.9)	0.1	(6.1)
Less non-current portion:				
Foreign currency forward contracts	–	(62.3)	–	(1.6)
Non-current portion	–	(62.3)	–	(1.6)
Current portion	10.9	(100.6)	0.1	(4.5)

Interest rate swaps

The notional principal amount of the outstanding interest rate swap contract at 31 December 2006 was £28.1 million (US dollars: \$55.0 million). 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 contract at 31 December 2005 was £32.0 million (US dollars: \$55.0 million).

Foreign currency forward contracts

	2006 £'m	2005 £'m
Fair value:		
US dollar forward sales (USD/£)	7.4	(3.6)
Forward sales denominated in other currencies	1.0	(2.0)
Total asset/(liability)	8.4	(5.6)

32 Provisions

	Environmental & litigation (a) £'m	Onerous lease costs (b) £'m	Warranty costs (c) £'m	Total £'m
Balance at 1 January 2006 as previously reported	76.0	1.7	8.3	86.0
Restatement following finalisation of fair values (see note 44)	–	–	0.3	0.3
Balance at 1 January 2006 as restated	76.0	1.7	8.6	86.3
Exchange rate adjustments	(8.1)	(0.1)	(0.4)	(8.6)
Businesses acquired (see note 43)	–	–	1.3	1.3
Charge/(credit) to income statement – net operating costs	1.6	(0.1)	0.8	2.3
Charge to income statement – net finance costs (see note 13)	1.0	–	–	1.0
Utilised	(18.1)	(0.3)	(2.4)	(20.8)
Balance at 31 December 2006	52.4	1.2	7.9	61.5
			2006 £'m	2005 Restated £'m
Current			7.5	18.4
Non-current			54.0	67.9
Balance at 31 December 2006			61.5	86.3

- a) Provision has been made for known exposures arising from environmental, health and safety and product liability 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 these principal known risks but such insurance may not be sufficient to cover unknown risks. In respect of environmental matters provision has been made for the gross estimated liability and an asset of £24.7 million (2005: £44.4 million) 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 and are discounted using a discount rate appropriate to each provision.
- 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 and are discounted using a discount rate appropriate to each provision.
- c) Provision has been made for product warranty claims. These provisions are expected to be utilised over the next three years.

Notes to the
financial statements continued**33 Deferred tax**

Movement on deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	Tax losses £'m	Retirement benefit obligations £'m	Other £'m	Total £'m
Balance at 1 January 2005	–	23.6	7.0	30.6
Reclassifications	–	–	(0.2)	(0.2)
Credited/(Charged) to income statement as restated (see note 14)	5.8	(0.2)	1.2	6.8
Credited/(Charged) to equity (see note 14)	–	8.0	(3.5)	4.5
Balance at 31 December 2005 as restated	5.8	31.4	4.5	41.7
Exchange rate adjustments	–	(0.9)	(0.2)	(1.1)
Businesses acquired (see note 43)	–	–	1.9	1.9
Reclassifications	0.1	0.4	5.7	6.2
Credited/(Charged) to income statement (see note 14)	0.8	(1.4)	(2.3)	(2.9)
Credited/(Charged) to equity (see note 14)	–	1.3	2.4	3.7
Balance at 31 December 2006	6.7	30.8	12.0	49.5

Deferred tax liabilities	Accelerated tax depreciation £'m	Intangible assets (*) £'m	Other £'m	Total £'m
Balance at 1 January 2005	(10.0)	(42.9)	–	(52.9)
Exchange rate adjustments	(0.5)	0.1	–	(0.4)
Businesses acquired as restated	–	(1.1)	–	(1.1)
Credited/(Charged) to income statement as restated (see note 14)	1.5	(9.9)	(0.2)	(8.6)
Balance at 31 December 2005 as restated	(9.0)	(53.8)	(0.2)	(63.0)
Exchange rate adjustments	0.5	0.4	0.3	1.2
Reclassifications	(0.4)	(7.6)	–	(8.0)
Credited/(Charged) to income statement (see note 14)	(3.1)	1.3	(0.2)	(2.0)
Balance at 31 December 2006	(12.0)	(59.7)	(0.1)	(71.8)

* acquired in business combinations

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The balances after allowing for such offsets are as follows:

	2006 £'m	2005 Restated £'m
Deferred tax asset	32.9	32.0
Deferred tax liability	(55.2)	(53.3)
Net balance at 31 December	(22.3)	(21.3)

Notes to the financial statements *continued*

33 Deferred tax *continued*

Deferred tax assets are analysed as follows:

	2006 £'m	2005 Restated £'m
To be recovered within 12 months	5.9	6.4
To be recovered after more than 12 months	27.0	25.6
Total	32.9	32.0

Deferred tax liabilities are analysed as follows:

	2006 £'m	2005 Restated £'m
To be recovered within 12 months	(3.4)	(3.9)
To be recovered after more than 12 months	(51.8)	(49.4)
Total	(55.2)	(53.3)

The Group has unrecognised deferred tax assets of £21.1 million (2005: £32.0 million). The majority relate to the Group's operations in the USA and unutilised losses. 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 businesses. The aggregate unrecognised deferred tax liability in respect of such unremitted earnings is £7.9 million (2005: £6.0 million).

34 Retirement benefit obligations

In the UK, the majority of 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 the majority of 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 money purchase nature.

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

	2006 £'m	2005 £'m
In respect of:		
Defined contribution schemes (see note 9)	7.5	7.1
Defined benefit schemes:		
Service cost (see note 9)	10.0	8.7
Past service credit (see note 9)	(1.8)	–
Interest cost (see note 12)	21.8	20.3
Expected return on scheme assets (see note 12)	(22.8)	(21.4)
	7.2	7.6
Total charge	14.7	14.7

Of the total charge £6.8 million (2005: £6.7 million) has been included in cost of sales, £8.9 million (2005: £9.1 million) in net operating expenses and a credit of £1.0 million (2005: £1.1 million) included in finance income.

Notes to the
financial statements continued

34 Retirement benefit obligations continued

The amounts recognised in the balance sheet are as follows:

	2006					
	Dunlop £'m	MEPP £'m	1990 Plan £'m	Whittaker Frozen Plan £'m	Whittaker unfunded plans £'m	Total £'m
Fair value of scheme assets	108.9	43.4	163.6	53.4	–	369.3
Present value of scheme liabilities	(133.3)	(49.4)	(214.0)	(67.5)	(2.3)	(466.5)
Retirement benefit obligations	(24.4)	(6.0)	(50.4)	(14.1)	(2.3)	(97.2)

	2005					
	Dunlop £'m	MEPP £'m	1990 Plan £'m	Whittaker Frozen Plan £'m	Whittaker unfunded plans £'m	Total £'m
Fair value of scheme assets	95.6	39.4	151.5	62.6	–	349.1
Present value of scheme liabilities	(114.6)	(43.3)	(206.9)	(79.8)	(2.7)	(447.3)
Retirement benefit obligations	(19.0)	(3.9)	(55.4)	(17.2)	(2.7)	(98.2)

The expected return on scheme assets and the major categories of scheme assets as a percentage of total scheme assets are as follows:

	2006							
	Long-term rate of return		% of total assets					
	UK	US	Dunlop %	MEPP %	1990 Plan %	Whittaker Frozen Plan %	Whittaker unfunded plans %	Total %
Equities	7.50%	9.50%	67.7	61.5	46.8	44.2	–	54.3
Bonds	5.05%	6.00%	32.1	38.0	39.6	52.2	–	39.0
Property	7.50%	–	–	–	13.1	–	–	5.8
Other assets	4.50%	1.00%	0.2	0.5	0.5	3.6	–	0.9
Total scheme	6.57%	7.36%	100.0	100.0	100.0	100.0	–	100.0

	2005							
	Long-term rate of return		% of total assets					
	UK	US	Dunlop %	MEPP %	1990 Plan %	Whittaker Frozen Plan %	Whittaker unfunded plans %	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
Total scheme	6.53%	7.18%	100.0	100.0	100.0	100.0	–	100.0

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Notes to the
financial statements continued

34 Retirement benefit obligations continued

Changes in the fair value of schemes' assets are as follows:

	2006 £'m	2005 £'m
Fair value of schemes' assets at 1 January	349.1	298.2
Exchange rate adjustments	(7.6)	6.8
Expected return on schemes' assets	22.8	21.4
Contributions – Group	10.1	10.1
Contributions – Members	3.1	2.9
Benefits paid	(15.7)	(16.0)
Actuarial gains	7.5	25.7
Fair value of schemes' assets at 31 December	369.3	349.1

The financial assumptions used to calculate scheme liabilities are:

	2006			2005		
	Dunlop	MEPP	1990 Plan	Dunlop	MEPP	1990 Plan
Discount rate	5.05%	5.05%	5.05%	4.85%	4.85%	4.85%
Inflation rate	2.90%	2.90%	2.90%	2.60%	2.60%	2.60%
Increase to deferred benefits during deferment	2.90%	2.90%	2.90%	2.60%	2.60%	2.60%
Increases to pensions in payment	2.90%	2.90%	2.90%	2.60%	2.60%	2.60%
Salary increases	3.90%	3.90%	3.90%	3.60%	3.60%	3.60%

	2006		2005	
	Whittaker Frozen Plan	Whittaker unfunded plans	Whittaker Frozen Plan	Whittaker unfunded plans
Discount Rate	5.75%	5.75%	5.50%	5.50%

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

Details on the sensitivity of scheme liabilities to changes in discount rates and inflation rates are provided below:

- The impact of a 10 basis point reduction in discount rate would cause schemes' liabilities at 31 December 2006 to increase by approximately £9.0 million.
- The impact of a 10 basis point reduction in inflation rate would cause schemes' liabilities at 31 December 2006 to reduce by approximately £8.0 million.

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. The Group's mortality assumptions are based on the PA92 medium cohort (Year of birth) mortality tables for the UK and the RP-2000 tables for the US schemes. The life expectancies reflected in the mortality assumptions used are as follows:

	2006 years		2005 years	
	UK Schemes	US Schemes	UK Schemes	US Schemes
Member age 65 (current life expectancy) – male	20.1	17.6	20.1	17.6
Member age 65 (current life expectancy) – female	23.0	20.1	23.0	20.1
Member age 45 (life expectancy at age 65) – male	21.2	17.6	21.2	17.6
Member age 45 (life expectancy at age 65) – female	24.0	20.1	24.0	20.1

Notes to the financial statements continued

34 Retirement benefit obligations continued

Changes in the present value of schemes' liabilities are as follows:

	2006 £'m	2005 £'m
Present value of schemes' liabilities at 1 January	447.3	373.1
Exchange rate adjustments	(10.0)	8.5
Service cost	10.0	8.7
Past service credit	(1.8)	–
Interest cost – unwinding of discount on liabilities	21.8	20.3
Contributions – Members	3.1	2.9
Benefits paid	(16.0)	(16.3)
Actuarial losses	12.1	50.1
Present value of schemes' liabilities at 31 December	466.5	447.3

Cumulative gains/(losses) recognised in equity are as follows:

	2006 £'m	2005 £'m
As at 1 January	(9.4)	7.0
Actuarial losses	(4.6)	(24.4)
Deferred tax credit	1.3	8.0
Net actuarial losses	(3.3)	(16.4)
As at 31 December	(12.7)	(9.4)

The actual return on plan assets was £30.3 million (2005: £47.1 million).

A history of experience gains and losses and retirement benefit obligations for the last five years is as follows:

	2006 £'m	2005 £'m	2004 £'m	2003 £'m	2002 £'m
Experience adjustments on schemes' assets:					
Gain/(Loss)	7.5	25.7	12.1	13.7	(42.7)
Percentage of schemes' assets	2.0%	7.4%	4.1%	6.6%	(22.5%)
Experience adjustments on schemes' liabilities:					
(Loss)/Gain	(9.3)	(13.4)	(20.5)	1.5	2.6
Percentage of schemes' liabilities	(2.0%)	(3.0%)	(5.5%)	0.5%	1.0%
Fair value of schemes' assets	369.3	349.1	298.2	207.5	190.0
Present value of schemes' liabilities	466.5	447.3	373.2	278.2	260.2
Schemes' deficits	97.2	98.2	75.0	70.7	70.2

35 Contingent liabilities

The 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 fair value of these guarantees is not considered to be significant.

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.

Notes to the
financial statements continued

36 Share capital

	2006 £'m	2005 £'m
Ordinary shares of 5p each		
Authorised: 640.0 million shares (2005: 640.0 million)	32.0	32.0

	No. of shares 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
Balance at 1 January 2006	433.2	21.7	
Issued on exercise of executive share options	1.9	0.1	3.2
Issued on exercise of SAYE share options	0.3	–	0.5
Scrip dividends	0.7	–	2.3
Balance at 31 December 2006	436.1	21.8	

Year of grant	No. of ordinary shares under option	Exercise price per share	Exercise period	
			From	To
i) Meggitt 1998 Sharesave Scheme:				
2000	30,884	147.48p	01.01.08	30.06.08
2002	192,935	127.98p	01.01.08	30.06.08
2002	29,001	127.98p	01.01.10	30.06.10
2005	656,366	220.50p	01.06.08	30.11.08
2005	641,796	220.50p	01.06.10	30.11.10
2005	196,152	220.50p	01.06.12	30.11.12
2006	460,321	237.34p	01.12.09	31.05.10
2006	399,097	237.34p	01.12.11	31.05.12
2006	75,218	237.34p	01.12.13	31.05.14
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	34,220	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	6,016	189.36p	14.12.03	13.12.10
2002	11,922	159.76p	17.10.05	16.10.12
2003	57,799	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:				
2000	162,083	189.36p	14.12.03	13.12.07
2001	291,151	133.20p	27.09.04	26.09.08
2002	689,373	159.76p	17.10.05	16.10.09
2003	966,115	209.38p	02.10.06	01.10.10
2004	211,074	203.72p	01.04.07	31.03.11
2004	1,681,964	246.00p	06.10.07	05.10.11
iv) Meggitt Executive Share Option Scheme 2005 Part A:				
2005	444,838	325.50p	10.10.08	09.10.15
2006	99,306	308.00p	27.09.09	26.09.16
2006	9,740	314.50p	09.10.09	08.10.16
v) Meggitt Executive Share Option Scheme 2005 Part B:				
2005	1,431,825	325.50p	10.10.08	09.10.15
2006	2,098,002	308.00p	27.09.09	26.09.16
2006	52,111	314.50p	09.10.09	08.10.16

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

The average remaining contractual life of outstanding options is 5.82 years (2005: 5.28 years).

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.

Notes to the
financial statements continued

37 Share-based payment

The Group operates a number of share schemes for the benefit of its employees. The total expense recorded in the income statement for the year in respect of such schemes was £3.3 million (2005: £2.3 million). The nature of each scheme which has a significant impact on the expense recorded in the income statement is set out below:

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. An expense of £1.4 million (2005: £1.0 million) was recorded in the year.

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

	2006 Average exercise price pence	2006 No. of options outstanding 'm	2005 Average exercise price pence	2005 No. of options outstanding 'm
Balance at 1 January	226.68	8.4	188.03	8.3
Granted	308.00	2.3	325.50	1.9
Lapsed	203.69	(0.5)	—	—
Exercised	174.67	(1.8)	135.37	(1.8)
Balance at 31 December	261.37	8.4	226.68	8.4

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 77.90 pence (2005: 89.70 pence). The significant assumptions used in the model were:

	2006 Award in September	2005 Award in October
Share price at date of grant (pence)	308.00	325.50
Exercise price (pence)	308.00	325.50
Vesting period (years)	3	3
Expected volatility	30%	35%
Expected life of option (years)	5	5
Risk free rate	4.65%	4.10%
Expected dividend yield	3.00%	3.10%

Expected volatility figures are based on historical volatility over the last five years measured using a statistical analysis of daily share prices. The share options may be exercised at any point up to ten years after the date the award was made.

Share Appreciation Rights (SAR's)

Under the terms of the Meggitt Executive Share Option Scheme 2005 the Group may issue SAR's to certain overseas employees. The Group is required to pay the intrinsic value of the SAR to the employee at the date of exercise. An expense of £0.4 million (2005: £0.1 million) was recorded in the year. The Group has recorded a liability at the balance sheet date of £0.5 million (2005: £0.1 million). The total intrinsic value was £0.0 million (2005: £0.6 million).

Movements in the number of outstanding SAR's and their related weighted average exercise prices are as follows:

	2006 Average exercise price pence	2006 No. of options outstanding 'm	2005 Average exercise price pence	2005 No. of options outstanding 'm
Balance at 1 January	325.50	1.4	—	—
Granted	308.00	1.6	325.50	1.5
Lapsed	—	—	325.50	(0.1)
Balance at 31 December	316.19	3.0	325.50	1.4

The fair value of each SAR is determined using the Black-Scholes model. The initial fair value at the date of award reflects the same assumptions used for share options and are disclosed in the table above. As a cash settled award the fair value of outstanding SAR's is reassessed at each balance sheet date.

Notes to the financial statements *continued*

37 Share-based payment *continued*

1996 Meggitt Equity Participation Scheme and Meggitt Equity Participation Plan 2005

Under the 1996 Meggitt Equity Participation Scheme the number of shares, if any, that an executive would ultimately have received was dependent on the Group'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 during 2005 by the Meggitt Equity Participation Plan 2005.

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 the Group'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 the Group with that of other companies in a comparator group chosen by the Remuneration Committee. An expense of £1.1 million (2005: £1.1 million) was recorded in the year.

Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2006 No. of options outstanding m	2005 No. of options outstanding m
Balance at 1 January	2.5	1.1
Granted	1.6	1.6
Lapsed	(0.1)	–
Released to employees	(0.5)	(0.2)
Balance at 31 December	3.5	2.5

The fair value of the award is measured using a Monte Carlo model. The fair value of awards during the year was 169.00 pence (2005: 146.50 pence). The significant assumptions used in the model were:

	2006 Award in March	2005 Award in October
Share price at date of grant (pence)	352.00	318.50
Vesting period (years)	3	3
Expected volatility	20%	25%
Expected life of award (years)	3	3
Risk free rate	4.48%	4.10%
Expected dividend yield	2.40%	3.00%

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

38 Own shares

Own 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 40.

At 31 December 2006 the trust held 94,292 ordinary shares (2005: 75,944 shares) of which 6,227 were allocated to the Meggitt 1996 Executive Share Option Schemes (2005: 6,227 shares) and 88,065 were unallocated (2005: 69,717) being retained by the trust for future use. The shares were purchased in prior years and have a cost of £0.1 million at 31 December 2006 (2005: £0.0 million).

The market value of the shares at 31 December 2006 was £0.3 million (2005: £0.3 million) representing 0.02% of the issued share capital of the Company (2005: 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).

Notes to the
financial statements continued**39 Consolidated statement of changes in equity**

	Share capital £'m	Share premium £'m	Other reserves £'m	Hedging and translation reserve £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2005	21.5	342.6	14.1	(5.6)	89.8	462.4
Actuarial losses	–	–	–	–	(16.4)	(16.4)
Currency translation differences	–	–	–	4.5	–	4.5
Net income recognised directly in equity	–	–	–	4.5	(16.4)	(11.9)
Profit for the year as restated	–	–	–	–	65.5	65.5
Employee share option schemes:						
Value of services provided	–	–	–	–	–	–
Proceeds from shares issued	0.1	2.7	–	–	–	2.8
Dividends	0.1	4.9	–	–	(31.0)	(26.0)
Adoption of IAS 32 & IAS 39	–	–	–	–	3.9	3.9
Balance at 31 December 2005 as restated	21.7	350.2	14.1	(1.1)	111.8	496.7
Actuarial losses	–	–	–	–	(3.3)	(3.3)
Currency translation differences	–	–	–	(5.2)	–	(5.2)
Net income recognised directly in equity	–	–	–	(5.2)	(3.3)	(8.5)
Profit for the year	–	–	–	–	96.5	96.5
Own shares purchased	–	–	–	–	(0.1)	(0.1)
Employee share option schemes:						
Value of services provided	–	–	–	–	5.2	5.2
Proceeds from shares issued	0.1	3.6	–	–	–	3.7
Dividends	–	2.3	–	–	(34.3)	(32.0)
Balance at 31 December 2006	21.8	356.1	14.1	(6.3)	175.8	561.5

40 Contractual commitments

	2006 £'m	2005 £'m
Capital commitments		
Contracted for but not incurred – property, plant & equipment	7.0	8.9

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:

	2006 £'m	2005 £'m
Not later than one year	0.4	1.1
Later than one year and not later than five years	6.5	5.6
Later than five years	40.5	50.0
Total	47.4	56.7

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.

Notes to the financial statements continued

41 Cash inflow from operations

	2006 £'m	2005 Restated £'m
Profit for the year	96.5	65.5
Adjustments for:		
Tax	33.5	21.6
Depreciation (see note 22)	14.7	15.5
Amortisation (see notes 20 and 21)	17.0	13.6
Profit on disposal of property, plant & equipment	(1.6)	(0.2)
Finance income (see note 12)	(3.3)	(4.9)
Finance costs (see note 13)	19.8	19.2
Financial instruments (see note 10)	(12.1)	10.1
Adjustment to goodwill on recognition of tax assets (see note 10)	2.4	–
Changes in working capital:		
Inventories	(20.7)	(17.5)
Trade and other receivables	(19.8)	(5.9)
Trade and other payables	24.2	19.3
Provisions	(18.6)	(9.0)
Cash generated from operations	132.0	127.3

42 Major non-cash transactions

During the year Meggitt PLC issued 0.7 million shares worth £2.3 million in respect of scrip dividends (2005: 1.7 million shares worth £5.0 million).

43 Business combinations

Total consideration payable in respect of acquisitions was as follows:

	2006 £'m	2005 £'m
Businesses acquired in 2006	89.5	–
Businesses acquired in 2005	–	15.5
Businesses acquired in earlier years	–	(16.0)
Total consideration payable/(received)	89.5	(0.5)

Acquisitions made in 2006

Acquisitions completed during 2006 were as follows:

22 August 2006:	Radatec, Inc
12 September 2006:	Keith Products LLP
19 October 2006:	Firearms Training Systems, Inc. ("FATS")

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

	FATS book value £'m	FATS fair value £'m	Other book value £'m	Other fair value £'m	Total fair value £'m
Property, plant and equipment (see note 22)	1.0	0.9	0.1	0.1	1.0
Deferred tax assets (see note 33)	0.9	1.9	–	–	1.9
Inventories	6.8	8.1	1.0	0.8	8.9
Trade and other receivables – current	12.7	9.5	0.9	0.9	10.4
Cash and cash equivalents	4.7	4.7	–	–	4.7
Trade and other payables – current	(7.9)	(9.5)	(0.4)	(0.4)	(9.9)
Current tax liabilities	(0.1)	(0.3)	–	–	(0.3)
Trade and other payables – non-current	(0.3)	(0.3)	–	–	(0.3)
Bank and other borrowings – non-current	(15.5)	(15.5)	–	–	(15.5)
Provisions – non-current (see note 32)	(0.1)	(1.2)	–	(0.1)	(1.3)
Total	2.2	(1.7)	1.6	1.3	(0.4)

Consideration satisfied in cash (including costs)	86.3
Deferred consideration (see note 27)	3.2
Total consideration payable	89.5
Goodwill on acquisitions (see note 19)	89.9

Notes to the financial statements continued

43 Business combinations continued

Further deferred consideration, which has not been accounted for, of up to £2.0 million may become payable depending on performance.

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 acquisitions will be finalised during 2007.

The acquisition of FATS is considered significant. Since acquisition, FATS has contributed £0.6 million to Group profit after tax and has produced an operating cash outflow of £0.4 million. FATS had a profit after tax in its last reported financial year to 31 March 2006 of \$3.2 million. In the period from the last reported financial year to acquisition, FATS had revenue of \$42.5 million, an operating loss of \$2.0 million, a loss before tax of \$5.4 million and a loss after tax of \$3.1 million. These results were after charging \$6.3m of exceptional costs. Had FATS been part of the Group for the whole of 2006, it would have contributed revenue of \$83.2 million and a profit after tax of \$0.5 million.

The other acquisitions have, since acquisition, contributed £0.3 million to Group profit after tax and a £0.6 million inflow to Group operating cash.

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

	2006 £'m
Cash consideration – FATS	67.0
Directly attributable costs – FATS	1.3
Cash consideration – other	17.4
Directly attributable costs – other	0.6
	86.3
Less net cash acquired with subsidiary undertakings – FATS	(4.7)
Net outflow of cash and cash equivalents for acquisitions	81.6

Acquisitions in 2005 – amendment of provisional fair values

In August 2005 the Group acquired the business and assets of Avery-Hardoll and in November 2005 acquired Européenne de Conception et d'Etudes Technologiques (ECET) and Sensorex. At 31 December 2005 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 2006. In accordance with IFRS 3 these amendments have been recorded as though they were made in 2005. The amendments made primarily related to the recognition, separately from goodwill, of other intangibles that met the definition of intangible assets and whose fair values could be measured reliably and the revaluation of inventory to fair value. The recognition of these assets produced a consequent reduction in the goodwill previously reported. The assets identified were then amortised or charged to the income statement in 2005 as appropriate. The impact on net assets and the income statement arising from the finalisation of fair values is shown in note 44.

44 Restatement of prior year comparatives

IFRS 3 requires fair values of assets and liabilities acquired to be finalised within 12 months of the acquisition date with the exception of certain deferred tax balances (see note 14). All fair value adjustments are required to be recorded with effect from the date of acquisition and consequently result in the restatement of previously reported financial results.

During 2006 the Group finalised the fair values for three acquisitions completed in 2005 and this resulted in adjustments to the profit for the year ended 31 December 2005 and to the balance sheet at that date. Further details are provided in note 43.

The impact of the adjustments is shown below:

	2005 As reported £'m	2005 Adjustments £'m	2005 As restated £'m
Revenue	616.3	–	616.3
Cost of sales	(338.1)	(0.7)	(338.8)
Gross profit	278.2	(0.7)	277.5
Net operating costs	(175.8)	(0.3)	(176.1)
Operating profit	102.4	(1.0)	101.4
Net finance costs	(14.3)	–	(14.3)
Profit before tax from continuing operations	88.1	(1.0)	87.1
Tax	(21.9)	0.3	(21.6)
Profit for the year	66.2	(0.7)	65.5
Earnings per share – basic	15.4p	(0.2p)	15.2p
Earnings per share – diluted	15.3p	(0.2p)	15.1p

None of the adjustments above affected underlying profit as defined in note 10 or underlying EPS as defined in note 16.

Notes to the financial statements continued

44 Restatement of prior year comparatives continued

	2005 As reported £'m	2005 Adjustments £'m	2005 As restated £'m
Goodwill	551.4	(4.5)	546.9
Other intangible assets	177.5	4.7	182.2
Inventories	134.3	0.2	134.5
Deferred tax liabilities	(52.5)	(0.8)	(53.3)
Provisions – non-current	(67.6)	(0.3)	(67.9)
Other net liabilities – not affected by restatement	(245.7)	–	(245.7)
Net assets	497.4	(0.7)	496.7

45 Post balance sheet events

The Group announced on 6 March 2007 the proposed acquisition of K&F Industries Holdings, Inc. for a total cash consideration of \$1.8 billion. K&F Industries Holdings, Inc. is a leading provider of wheels and brakes for commercial aircraft, general aviation and military aircraft and a key supplier of engineered fabrics to the US Department of Defense. The main operations of K&F Industries Holdings, Inc. are located in Akron, Ohio, Danville, Kentucky and Rockmart, Georgia. The acquisition is to be financed by a combination of a rights issue and debt. New shares will be issued at 200 pence per share by way of a 1 for 2 rights issue. The terms of the new credit facility have been agreed.

46 Group companies

The following information is not a complete listing of all subsidiary companies at 31 December 2006 and relates only to those subsidiaries principally affecting the profits or assets of the Group.

United Kingdom

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

Continental Europe

Meggitt BV – Netherlands ‡	Navarra de Componentes Electronicos SA – Spain
Piher International GmbH – Germany	Sensorex SAS – France
Vibro-Meter SAS – France	Vibro-Meter SA – Switzerland

North America

Dunlop Aerospace North America, Inc – USA	Endevco Corporation – USA
FATS, Inc – USA	Firearms Training Systems Inc – USA ‡
Keith Products LLP – USA	Meggitt Aerodynamics Inc – USA
Meggitt Defence Systems Caswell Inc – USA	Meggitt Defense Systems, Inc – USA
Meggitt GP Inc – USA ‡	Meggitt Holdings (California) Inc – USA ‡
Meggitt Holdings (USA) Inc – USA ‡	Meggitt Oregon, Inc – USA
Meggitt Safety Systems Inc – USA	Meggitt Thermal Systems, Inc – USA
Meggitt-USA, Inc – USA ‡	Meggitt Western Design Inc – USA
S-Tec Corporation – USA	Stewart Warner South Wind Corporation – USA
Vibro-Meter Inc – USA	Whittaker Controls Inc – USA
Whittaker Corporation – USA ‡	Wilcoxon Research Inc – 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 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 2006.
- 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 33.

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

Independent auditors' report to the members of Meggitt PLC

We have audited the parent company financial statements of Meggitt PLC for the year ended 31 December 2006 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 2006.

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 whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referenced from the Principal Activities and Business Review sections of the Directors' Report.

In addition we report to you if, in our opinion, 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 the Financial Highlights, Group Capabilities, Chairman's Statement, Group Strategy, Business Review, Corporate Responsibility, Board of Directors, Report of the Directors, Directors' Statement on Corporate Governance, the unaudited part of the Remuneration Report and the other information listed in the contents to the Annual Report. 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 2006;
- 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; and
- the information given in the Directors' Report is consistent with the parent company financial statements.



PricewaterhouseCoopers LLP

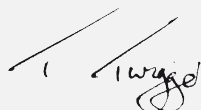
Chartered Accountants and Registered Auditors
Reading
7 March 2007

Company balance sheet

As at 31 December 2006

	Notes	2006 £'m	2005 £'m
Fixed assets			
Tangible fixed assets	4	2.0	0.9
Derivative financial instruments	11	–	1.6
Investments	5	167.3	164.8
		169.3	167.3
Current assets			
Debtors	6	1,358.1	940.0
Derivative financial instruments	11	8.5	4.1
Cash at bank and in hand		7.5	11.9
		1,374.1	956.0
Creditors – amounts falling due within one year	7	(660.7)	(268.4)
Derivative financial instruments	11	(8.5)	(4.5)
Net current assets		704.9	683.1
Total assets less current liabilities		874.2	850.4
Creditors – amounts falling due after more than one year	8	(374.2)	(340.9)
Provision for liabilities and charges	9	(0.3)	(0.5)
Derivative financial instruments	11	(0.6)	(1.5)
Net assets		499.1	507.5
Capital and reserves			
Called up share capital	14	21.8	21.7
Share premium account	16	356.1	350.2
Other reserves	16	17.5	17.5
Profit and loss reserve	15	103.7	118.1
Total shareholders' funds	16	499.1	507.5

The financial statements were approved by the Board of Directors on 7 March 2007 and signed on its behalf by:



T Twigger
Director



S G Young
Director

Notes to the financial statements of the Company

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).

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

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 scheme 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 is recognised as an expense in the profit and loss account over the period for which services are received (vesting period).

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.

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 the shareholders' funds.

Notes to the financial statements of the Company *continued*

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

Dividends

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

Profit and recognised gains and losses 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). 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 statement of recognised gains and losses.

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.

Notes to the financial statements of the Company continued

3 Employee costs

	2006 £'m	2005 £'m
Employee costs during the year including executive directors:		
Wages and salaries	3.9	3.8
Social security costs	0.6	0.6
Other pension costs	0.6	0.9
Share-based payment (see note 16)	0.6	0.5
Total	5.7	5.8

Details of the Group's employee share schemes are included in note 37 of the Meggitt PLC Group accounts.

	2006 No.	2005 No.
Average monthly number of persons employed including executive directors:		
Administration	36	31
Total	36	31

4 Tangible fixed assets

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost at 1 January 2006	0.2	2.1	2.3
Additions	0.6	0.9	1.5
Disposals	–	(1.1)	(1.1)
Cost at 31 December 2006	0.8	1.9	2.7
Accumulated depreciation at 1 January 2006	0.1	1.3	1.4
Charge for year	0.1	0.3	0.4
Disposals	–	(1.1)	(1.1)
Accumulated depreciation at 31 December 2006	0.2	0.5	0.7
Net book amount at 31 December 2006	0.6	1.4	2.0
Net book amount at 31 December 2005	0.1	0.8	0.9
	2006 £'m	2005 £'m	
Net book amount of land and buildings			
Freehold	0.1	0.1	
Short leasehold	0.5	–	
Total	0.6	0.1	

5 Investments

	2006 £'m	2005 £'m
Shares in subsidiaries		
At 1 January	164.8	163.6
Additions – capital contribution arising from FRS 20	2.5	1.2
At 31 December	167.3	164.8

A list of subsidiaries is included in note 46 of the Meggitt PLC Group accounts.

Notes to the financial statements
of the Company continued

6 Debtors

	2006 £'m	2005 £'m
Amounts falling due within one year		
Amounts owed by Group undertakings	1,357.0	939.5
Other debtors	0.6	0.4
Prepayments and accrued income	0.5	0.1
Total	1,358.1	940.0

7 Creditors – amounts falling due within one year

	2006 £'m	2005 £'m
Bank loans and overdrafts	11.0	11.0
Other loans	0.3	0.3
Trade creditors	1.1	0.5
Amounts owed to Group undertakings	628.9	245.0
UK corporation tax payable	14.3	7.4
Taxation and social security	0.9	1.0
Other creditors	0.7	1.5
Accruals	3.5	1.7
Total	660.7	268.4

8 Creditors – amounts falling due after more than one year

	2006 £'m	2005 £'m
Bank loans	247.2	195.9
Other loans	127.0	145.0
Total	374.2	340.9
	2006 £'m	2005 £'m
Analysis of bank loans and overdrafts repayable:		
In one year or less	11.0	11.0
In more than two years but not more than five years	247.2	195.9
Total	258.2	206.9
	2006 £'m	2005 £'m
Analysis of other loans repayable:		
In one year or less	0.3	0.3
In more than five years	127.0	145.0
Total	127.3	145.3

9 Provisions for liabilities and charges

	Onerous lease costs (a) £'m	Deferred tax (See note 10) £'m	Total £'m
Balance at 1 January 2006	0.5	–	0.5
(Credit)/charge to profit and loss account – operating costs	(0.2)	0.1	(0.1)
Utilised	(0.1)	–	(0.1)
Balance at 31 December 2006	0.2	0.1	0.3

- 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.

Notes to the financial statements
of the Company continued

10 Deferred tax

	2006 £'m	2005 £'m
Accelerated capital allowances	(0.1)	–
Deferred tax liability	(0.1)	–

11 Derivative financial instruments

	2006 Assets £'m	2006 Liabilities £'m	2005 Assets £'m	2005 Liabilities £'m
Interest rate swaps – fair value hedges	–	(0.6)	–	(0.4)
Forward foreign exchange contracts	8.5	(8.5)	5.7	(5.6)
Total	8.5	(9.1)	5.7	(6.0)
Less non-current portion:				
Interest rate swaps – fair value hedges	–	(0.6)	–	–
Forward foreign exchange contracts	–	–	1.6	(1.5)
Non-current portion	–	(0.6)	1.6	(1.5)
Current portion	8.5	(8.5)	4.1	(4.5)

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).

12 Pensions

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

13 Commitments

	2006 £'m	2005 £'m
Capital commitments		
Contracted for but not incurred – plant, equipment and vehicles	–	–
Operating lease commitments		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
	2006 £'m	2005 £'m
After more than five years	2.2	0.3

Notes to the financial statements
of the Company continued

14 Share capital

	2006 £'m	2005 £'m
Ordinary shares of 5p each		
Authorised: 640.0 million shares (2005: 640.0 million)	32.0	32.0
	No. of shares 'm	Nominal value £'m
Net consideration £'m		
Allotted and fully paid:		
Balance at 1 January 2006	433.2	21.7
Issued on exercise of executive share options	1.9	0.1
Issued on exercise of SAYE share options	0.3	–
Scrip dividends	0.7	–
Balance at 31 December 2006	436.1	21.8

15 Profit and loss reserve

	£'m
At 31 December 2005	118.1
Profit for the financial year	16.8
Dividends	(34.3)
Employee share option schemes:	
Value of subsidiary employee services (see note 5)	2.5
Value of services provided	0.6
At 31 December 2006	103.7

16 Capital and reserves

	Share capital £'m	Share premium £'m	Other reserves £'m	Profit and loss reserve £'m	Total 2006 £'m	Total 2005 £'m
Balance at 31 December 2005	21.7	350.2	17.5	118.1	507.5	458.7
Profit for the financial year	–	–	–	16.8	16.8	70.4
Dividends	–	–	–	(34.3)	(34.3)	(31.0)
Employee share option schemes:						
Value of subsidiary employee services (see note 5)	–	–	–	2.5	2.5	1.2
Value of services provided	–	–	–	0.6	0.6	0.5
Issued on exercise of executive share options	0.1	3.1	–	–	3.2	2.4
Issued on exercise of SAYE share options	–	0.5	–	–	0.5	0.3
Scrip dividends	–	2.3	–	–	2.3	5.0
Balance at 31 December 2006	21.8	356.1	17.5	103.7	499.1	507.5

Financial calendar and supplementary information

Dividends

The proposed 2006 final dividend of 6.00p per share, if approved, will be paid on 6 July 2007 to shareholders on the register on 16 March 2007. The expected dividend payment date for the 2007 interim dividend is 7 December 2007.

Results announcements (provisional)

2007 interim results announcement – August 2007
2007 full year results – Preliminary announcement March 2008
– Report and accounts March 2008

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 2006:

	No. of shareholders	% of total shares		No. of shareholders	% of total shares
Size of holdings:			Types of shareholder:		
1–999	6,440	0.35	Individuals	8,417	3.27
1,000–9,999	2,715	1.84	Banks and nominees	1,391	93.86
10,000–99,999	482	3.40	Investment and insurance companies	27	0.04
100,000–249,999	107	3.76	Other	111	2.83
250,000–499,999	78	6.15			
500,000–999,999	43	7.18			
1,000,000 and over	81	77.32			
	9,946	100.00		9,946	100.00

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

	2006 IFRS £'m	2005 IFRS £'m	2004 IFRS £'m	2003 UK GAAP £'m	2002 UK GAAP £'m
Revenue and profit					
Revenue	670.3	616.3	476.6	402.4	403.8
Underlying profit before taxation	132.7	116.3	90.3	77.8	70.3
Exceptional operating costs	(1.5)	(7.0)	(7.9)	(13.3)	(13.0)
Amortisation of goodwill	–	–	–	(20.2)	(18.1)
Amortisation of intangibles acquired in business combinations	(10.8)	(11.2)	(3.2)	–	–
Disposal of inventory revalued in business combinations	(0.1)	(0.9)	(8.5)	–	–
Financial instruments	12.1	(10.1)	–	–	–
Goodwill adjustment arising from recognition of tax losses	(2.4)	–	–	–	–
Profit before taxation	130.0	87.1	70.7	44.3	39.2
Earnings and dividends*					
Earnings per share – basic	22.2p	15.2p	13.9p	6.7p	5.5p
Earnings per share – underlying	22.3p	20.0p	17.4p	16.4p	14.9p
Dividends per ordinary share (paid or proposed in respect of the year)	8.6p	7.7p	7.0p	6.5p	6.1p
Capital					
Average capital employed	529.1	479.6	366.8	265.2	254.0
Return on average capital employed	24.6%	18.2%	19.3%	16.7%	15.4%
Gearing ratio					
Year end net cash/borrowings as a percentage of capital employed	63.0%	63.3%	71.2%	51.8%	54.2%

The five-year record shows the figures reported for 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.

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

Advisors

Principal Clearing Bankers

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

Merchant Bankers

N M Rothschild & Sons Limited

Auditors

PricewaterhouseCoopers LLP
Reading

Solicitors

Clifford Chance LLP

Company Registered No.

432989

Brokers

Merrill Lynch International

Registrars

Computershare Investor Services PLC

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